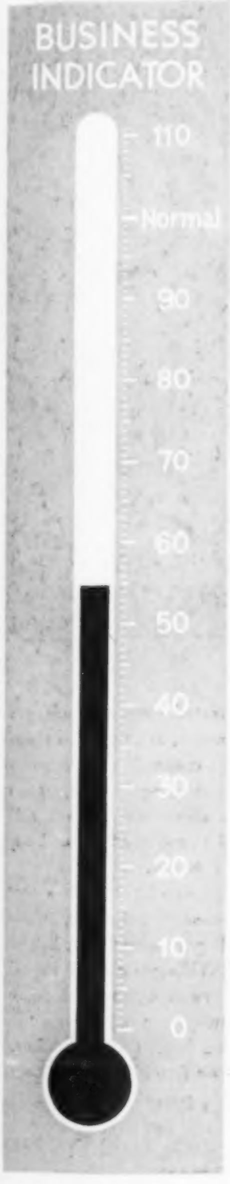
JULY 20, 1932

THE BUSINESS WEEK



The slow, inconspicuous turns of the economic and political kaleidoscope in recent weeks have suddenly brought before the bored and unbelieving eye of business a pattern of somewhat rosier color, for the first time in more than a year. . . . A surprising spurt of progress appears to have been made toward removing some of the international obstacles to recovery. . . . Congress has closed a fairly constructive record of accomplishment during a difficult session and cleared the field for action of natural economic forces and convalescence of business confidence free from fear of further legislative interference for several months. . . . Commodity prices have strengthened, partly under seasonal influences but partly also by force of more fundamental factors. . . . Increasing firmness in security markets in face of poor past earnings reports and the low level of current business activity reflects a more hopeful view of the prospects of future improvement. . . . Although the business barometers do not yet register the effects of these changes in the economic atmosphere, and should not be expected to do so at this customarily slack season, their increasing stability is encouraging to those who believe that the volume of production and trade must be at or near the bottom. . . . The continued contraction of bank credit is still disturbing and indicates the need of more active cooperation of our banking system in efforts to stimulate private enterprise and expand employment.

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This Business Week:

Washington

Vetoed, then reincarnated, the revised Wagner-Garner relief bill made clear the feeling of the Administration and of Congress that any further help to business should be through the banking system, not the Reconstruction Corp. *(p. 3)*

The new taxes are not the kind that are as sure as death. No one is quite certain what to do about them, or how much they'll bring in, discounting evasions. *(p. 11)*

Commodities

Commodity prices are rapidly getting no worse; for several weeks, now, they have held their own; some, particularly sensitive, have even improved. There is more to it than supply and demand. *(p. 4)*

Foreign

In spite of a bad first act, the drama at Lausanne found a happy ending just before the curtain fell. The show now goes on the road, and much depends on its reception in Washington. The historical background is briefed for busy readers. *(p. 5)*

Chile, with little to lose, threatens to dump nitrate, will swap cooperation in a world cartel to gain a share of the European market. *(p. 22)*

Business abroad is encouraged by agreement at Lausanne. Cables report higher commodity prices. Britain is confident, awaiting Ottawa. France, backed by Britain, feels better about debt reductions. Even Germany has gained a jump on the wolf. *(p. 24)*

Utilities

Wisconsin once again takes the lead in breaking an old tradition, orders a reduction in telephone rates to match the general price level, focusses attention on an issue important to all who depend upon a fixed return. *(p. 7)*

Marketing

This week's instalment of The American Consumer Market considers the cost of health. As individuals, we spend $3 billions a year for medical goods and services. *(p. 20)*

A mountain of ice cream is sold by moving it to the consumer. Perhaps most successful of the new merchandisers is one who follows the consumer on his travels, sells him while he's hot. *(p. 22)*

McKesson & Robbins' plan to protect its national distribution from the domination of the chains has been freed from the Federal Trade Commission complaint charging monopoly. Other large manufacturers may try it. *(p. 7)*

There's a brisk trade in white duck caps for the unemployed to sell to the unemployed. *(p. 8)* Westinghouse expected 1 order per employee in its internal sales campaign, got more. *(p. 10)*

Production

Lordly Cuban cigar-makers and lower tariffs on leaf than on finished cigars have prompted American Tobacco to shift its fine cigar manufacturing from Havana to Trenton. Soon, women workers will roll Coronas in New Jersey. *(p. 8)*

Women long ago stopped buying expensive silk stockings because they were as short-lived as the cheap ones. Non-run hosiery, due this fall, may restore the good grades to popularity and profits to manufacturers. *(p. 9)*

Latex, from which comes rubber, has many uses for its own sake. Newest is in the making of a new coated paper which eliminates many of the printer's troubles. *(p. 12)*

West Coast lumbermen can pre-cut at the mill three-fourths of the lumber that goes into a house. Concrete, too, has mass-production plans. *(p. 12)*

Furniture makers and tire manufacturers are the latest industries to set up machinery for better internal cooperation. *(p. 13)* Cunard's oil and coal mixture has a naval angle. Over here, oil is cheaper than coal. *(p. 14)* The hard-times steel merger is a matter of economy, not high finance. *(p. 12)*

Finance

The movement to increase the use of trade acceptances is gaining recruits. This neglected commercial paper could be of great benefit to banks and business generally. *(p. 18)*

Figures

Rising commodity prices give a hopeful touch to an otherwise gloomy picture. *(p. 28)*

Labor

Illinois coal miners, back to work at a lower wage, make increased competition for southern fields. *(p. 10)*

In 1930, cotton mills stopped night work for women and minors; now, they may stop all night work to improve conditions. Even in boom times, daylight capacity is sufficient to supply the market. *(p. 9)*

Transport

At last, New York is to get store-door delivery, although of non-perishable carlots only. Extension to include l.c.l. freight may come later. *(p. 14)* On buses, the percentage of women travelers is higher than on railroads; bus companies will refine their service. *(p. 14)* In New York, private warehouses think the railroads should get out of the warehouse business which they sometimes operate at a loss as a matter of policy. *(p. 14)*

In this issue:

"Money for Health," Part 13 of The American Consumer Market

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending July 16, 1932

For Public Relief, the R.F.C.; For Industry, Federal Reserve

Both Congress and the Administration approve loans to private enterprise; Glass shows way out

THE Wagner-Garner bill, last of the major relief measures of this session, fell victim to post-convention politics, passed both houses for purposes of record, was killed by formal veto, revised to eliminate objections and accomplish its essential purpose and rushed through the process of re-passage.

The purpose, upon which President and Congress were agreed, was to provide emergency unemployment relief for necessitous sections, and to stimulate employment. This was to be done by a moderate amount of federal public construction work, to be financed without new bond issues, and by enlarging resources of the Reconstruction Corp. to make loans to states for unemployment relief, and to business to increase private employment.

The center of controversy was in the provisions for loans to business. The Administration itself was greatly interested in getting some provision into the relief bill whereby the R.F.C. could safely make its resources directly available for stimulation of private enterprise and employment. In the hearings on the Wagner bill before the Senate Committee and in the conference committee of both houses, Secretary Mills worked to this end, secured business men and industrialists to testify on the need and possible demand for credit for modernization of equipment and new construction of capital facilities.

Planned Safeguards

The possibilities of expanding employment in these ways were emphasized. Various plans for organizing and safeguarding the use of R.F.C. funds for such purposes were put before the Administration, though not brought effectively to the attention of the congressional committees. The President himself was understood to approve of the plan, though in his relief program he had specifically proposed only loans for "self-liquidating public and semi-public works."

The Senate balked at loans to railroads or other industries for modernization and equipment purchases, partly on the ground that this would introduce a new factor of business competition, and accepted only the proposal for loans for self-liquidating public works, toll bridges, tunnels, etc. The Garner bill in the House had not only the gigantic "pork barrel" proposal for post office construction financed by a bond issue, but provision for R.F.C. loans to individuals, businesses, local governments for any purposes, on any security, where bank credit could not be obtained by the borrowers.

The Conference committee bill threw out the post-office pork barrel, but left the private loan provision substantially as written in the Garner bill. Garner insisted on the latter out of deference to the "forgotten man" and the vice-presidential nomination, and the White House vetoed the bill because of this provision and in defiance of these considerations. In addition there were the good and sufficient reasons that the government could not go into a general banking business and the R.F.C. could not undertake the job of operating a pawnbroker's shop for everybody.

For Direct Reserve Loans

The politics now disposed of, the fact remains that the Administration and Congress both want some sound and practical way of providing credit for private enterprise of constructive character which will increase employment, recognizing that the commercial banks and the investment banking machinery are not functioning. This is being met in the revised bill by provision for direct loans by the Federal Reserve Banks to private enterprises, on good security and with approval of the Reserve Board. Senator Glass, of all people, suggested this unorthodox use of the Reserve System. Taken in con-

Keystone

NEW "RECONSTRUCTOR"—*Gardner Cowles, Des Moines publisher, is sworn in as a member of the Reconstruction Finance board. Eugene Meyer, who is about to retire as chairman (left), greets him*

nection with the proposals for investigation of R.F.C. loans and the suggestions for reorganization of the R.F.C. management by the President, it indicates a tendency to call a halt to the extension of R.F.C. functions and powers, and to go around it in any further financial relief measures.

Thus the last-minute trend in Congress is to carry the problem of relief and recovery back to the individual local banks and the regular banking system, side-stepping the R.F.C. and federal finance. The Reconstruction Corp. was obviously getting to be too big a proposition for either Congress or the Administration to cope with. Everybody concerned suddenly began to realize this when Brother Garner and the relief bill tried to pass off on the Corporation the job of general banker and pawnbroker for the country as a whole.

Passage of the Glass bill providing for new national bank note currency issues based on government bonds (*BW—Jun15'32*) is a symptom of similar drift in the direction of further decentralization in financial relief measures. The bill, substituted for the Goldsborough bill commanding the Federal Reserve authorities to restore commodity price levels, will enable the national banks, if they wish, to expand currency by nearly a billion dollars independently of Federal Reserve currency operations.

Fundamental Forces Are at Work In the Commodity Price Rise

While some of the current gains are seasonal, recent events support hopes of an upturn

THE averages of commodity prices, as measured by most of the indexes commonly used, have tended to stop declining during the past month. Some of these indexes have been steady for 6 or 7 weeks, or since the end of May. Some of them, especially those covering the so-called "sensitive" commodities with international markets, have risen during recent weeks.

This check to the prolonged decline in the commodity price level is most marked in domestic agricultural products, especially foods. The most striking increases have been shown in livestock and related products such as meat, lard, hides, fats and oils, and in sugar. Cotton prices have also strengthened. Some of the foreign agricultural products, like cocoa, coffee, rubber, silk, have been steadier recently. Petroleum prices have strengthened since spring, finished steel has remained fairly firm in spite of the low level of demand, and tin prices have improved, but the other non-ferrous metals, zinc, lead, and copper, as well as pig-iron and steel scrap, still show weakness. Wheat and other grains are the outstanding exceptions.

In most cases, these price movements are explained in terms of special factors. Sugar, cocoa, coffee, silk, tin, and petroleum have been subject to special marketing or production controls which have proven effective in strengthening prices, yet in others like zinc, lead, copper, such controls have failed to work. Natural curtailment of supply would seem to be the obvious factor in the improvement in livestock and related products, as well as in cotton. The sharp rise in hogs and cattle, which implies an encouraging increase in farm purchasing power in the Middle West, is apparently due mainly to an overestimate by the market of supply, together with some improvement in consumer demand due to low prices. Cotton acreage is about 10% below last year and lowest in a decade, and the prospects of weevil damage due to a rainy spring growing season are so strong that a crop considerably below 12 million bales appears possible. Yet grain prices continue weak in spite of fairly clear evidence that the domestic wheat crop will be greatly reduced and the carryover considerably cut down, while the world supply and carryover will not be larger than last year.

It is not possible to make a satisfactory or consistent case for recent price movements solely on the basis of supply and demand. In judging the significance of the strengthening of the commodity averages it is necessary to bear in mind that fundamental forces involving political and financial factors are at work on the price level at the present time. In the first place, it should be noted that there is a certain consistent seasonal movement in commodity prices, particularly the agricultural commodities. They usually tend to strengthen at this time of the year. In each of the past two years of declining prices a similar steadying or slight rise in commodity prices was evident during the summer. This year it has come a bit earlier. It may again prove to be temporary unless the fundamental factors now favor an upturn or a check to deflation.

Two Important Factors

Two such factors have appeared in recent weeks. First is the write-down of a third of the British public debt through the conversion scheme, and reduction of the level of long-term interest rates in England (*BW—Jul 13'32*). This is a step toward inflation and revival of long-term private capital investment in the world's most important money market and trading area, and may have a profound influence on the trend of international commodity price levels. The second factor is the final write-off of reparations at Lausanne. This is an important step toward restoration of the purchasing power of one of the world's leading markets for raw materials, and may be expected to clear the way toward trade revival in Europe. The Imperial Conference at Ottawa in the offing during the next few weeks may be of similar significance for the stimulation of world trade, revival of demand for raw products and lifting of the pressure of deflation on price levels. In some measure all these events are reflected or forecast in the recent commodity improvement.

What 1,057 Families Want to Buy Next

WHAT would American families like to buy next? Public utility men asked 1,057 families in 21 cities of 14 states. Well, they named 37 different things. Here are the 15 things that are first choice of the greatest number, with the percentage of families naming each:

Electric refrigerator, 28.0; rug, 14.8; radio, 21; washing machine, 10.1; vacuum cleaner, 9.8; "furniture," 9.1; living-room furniture, 7.1; bedroom furniture, 5.7; automobile, 5.5; curtains, 5.2; stove or range, 5.2; electric clock, 5.0; dining-room furniture, 4.9; lamp, 4.2; "electric appliances," 3.8. It will be noted that furniture items, if added together, overwhelmingly predominate.

The electrical industry draws the conclusion that it has succeeded in making people want electric refrigerators; its sales job now is to convince people they are not a luxury, but economical.

Globe

DRAMA, AT $3\frac{1}{2}\%$—*Holders of British war loan 5% bonds are asked to convert them into the new $3\frac{1}{2}$'s. One of the biggest financial operations in history, it is being staged with all the atmosphere of the war loan drives, with conversion blanks rushed to waiting vans by pretty girls. When the photographer got through, navvies did the real work*

Importance of Lausanne Result Likely to Grow As It Is Studied

Europe goes straight ahead toward further cooperation to cope with economic crisis

ONLY the world's confirmed pessimists were disappointed last week when delegates of 14 nations conferring at Lausanne reached an agreement terminating German reparations.

To the surprise of almost everyone, including the delegates themselves, reparations creditors and Germany have found a way of bringing the whole muddle to an end. It is true that the new agreement is contingent on cooperation from the United States in the matter of adjusting war debts. It is also true that this cooperation is likely to come grudgingly, if at all. With Paris and Berlin in accord, however, almost anything seems possible now.

The Lausanne accord, as it was finally drafted July 8, provides that:

1. Germany's creditors on reparations account will accept, in lieu of all further reparations payments, bonds with a face value of 3 billion Reichsmarks. This is the final amount which will be demanded for war damages.

2. Creditors will hold these bonds for a minimum of 3 years before they try to sell them. They will not be marketed below 90% of their par value. They will bear interest at 5%. If they have not been issued in 15 years, they will be cancelled.

3. Ratification of this plan by Germany's creditors is contingent on a scaling down of war debts by the United States. These total more than $11\frac{1}{2}$ billions, are owned principally by Great Britain, France, and Italy.

The agreement can be interpreted briefly. When Germany signed the Versailles treaty at the end of the War, there was in it a clause which fastened to Germany the responsibility for starting the war. Therefore, the Allies demanded that she pay the damages, first estimated at about $64 billions.

In 1921, this figure was scaled down to about $32 billions, which Germany was asked to liquidate at the rate of $476 millions a year plus a variable annuity of 26% of the value of German exports.

The near collapse of Germany in 1923 forced a reconsideration under what has come to be known as the Dawes commission.

Young Plan Developed

By 1929, nearly $2 billions had been paid under the Dawes plan, but Germany was again in difficulties. It was obvious that the amount levied against the Germans as war damages was more than could ever be paid. Accordingly, the Young commission was appointed and further scaled down the amounts to be paid annually by Germany as well as making a definite time when reparations would end. In 1931, the Hoover moratorium excused Germany from the impossible obligation of paying abroad the $470 millions due in reparations payments in 1931-32.

The Lausanne agreement, if it is ratified by all the signatory creditors, will replace all these previous agreements. It reduces Germany's reparations obligations to about $700 millions (scarcely 1¢ on the $1 of the original tribute), and even this amount probably will not be paid if the Allies get a satisfactory write-down of their war debts obligations by the United States, or if Germany is too unstable economically to foot even this moderate bill.

A 3-Year Respite

In case the final payment is made, it will be in the form of bonds which will be issued by the German government through the Bank for International Settlements. They will not be sold within the next 3 years so Germany has the assurance that there will be no financial worries in the next 3 years as far as reparations are concerned. Of other financial obligations there are plenty.

The "war guilt" problem is tacitly forgotten. To write it out would have cost the French delegates their political faces when they returned to Paris. To go home without it would go hard on the German delegation. Both sides compromised. The present agreement "replaces" all previous agreements. It includes no mention of "war guilt."

It is not to be supposed that the Lausanne agreement is now in effect. Not at all. Each member signing the treaty must have it ratified by his gov-

ernment. And, importantly in the case of France, no move will be made to have this accomplished until it is seen what Washington will do toward writing down the war debt obligations of the several nations to the United States. This was so well understood at Lausanne that Chancellor von Papen asked for, and received, a formal promise that if the Lausanne settlement was not approved, there would be another reparations conference.

Uncle Sam's Debtors

Debtors to the United States for war loans include 15 countries. Most of these debts have been funded in special, bilateral agreements. With the exception of 3, they are comparatively small, though the total involved is $11½ billions. Great Britain owes the largest amount—more than $4½ billions. France owes about $4 billions. Italy owes slightly more than $2 billions.

In the United States, these loans were made through Liberty or Treasury bond issues. Outstanding Liberty bonds now total something over $8 billions. Treasury bonds exceed $5 billions.

The present administration at Washington has indicated to Europe a number of times that, beyond the Hoover moratorium, nothing could be done for European debtors until they got together and ironed out the reparations question among themselves. That done, however, they were encouraged to appeal to the United States for a reconsideration of the debt structure. The settlement at Lausanne—contingent on writing down or cancellation of debts by Washington—is their answer.

A World Check-Up

How does the world situation stand now as a result of the Lausanne agreement?

Despite the serious "if's" still to be overcome before the plan is definitely adopted, it is a constructive step likely to be more appreciated when all of the difficulties it has overcome are closely studied. With the provision in the Lausanne agreement for the establishment of a committee to consider immediately the financial and trade crisis in Central Europe, and of a committee to formulate plans for a world economic conference to be held this fall, Europe is taking an initiative in coping with the economic crisis which the United States cannot ignore.

Herriot in High Favor

France is elated. Premier Herriot, whose government was recently threatened because of the crisis in the national budget, is again highly in favor. The French have not yet opened the way, on paper, for Germany's full return to national equality with the other powers. Actually, the financial concession is sufficiently large to prove the French are wholeheartedly behind any sound move to ameliorate the present economic crisis.

Germany is divided, but that is to be expected because of the unusual political setup. There is no government with the sanction of the Reichstag. When the Bruening government was overthrown recently, President Hindenburg asked Von Papen to form an interim government. It has never faced the Reichstag. It has negotiated the Lausanne agreement under presidential mandate.

What About Hitler?

The Hitlerites are likely to make important gains in the Reichstag elections late in July but it is doubtful if they will win a clear majority. Though they are utilizing against him the agreement negotiated by Von Papen in campaign talks, it is considered unlikely in Berlin that they would refuse to sign the plan if they came into power. They would simply disclaim responsibility for it.

The British are encouraged. To them the agreement is a necessary first move to clear the way for settlement of Central European financial tangles. Unless and until Washington reaction is definitely unfavorable, the British market is inclined to look hopefully on final settlement of reparations and war debts.

To the American market the scaling down of reparations to a final $700 millions means a substantial improvement in the standing of the more than $2 billions of long- and short-term debt owed by Germany to banks and investors in this country. The bond market is already substantially up as a result of the Lausanne agreement.

It is thought in Wall Street that the settlement is likely to cause a return flow to Germany of German funds held abroad so long as the reparations drain threatened financial collapse for the Reich.

A Hopeful Future

The comparative success at Lausanne gives new hope that a chain of related conferences soon to be held will further the cooperative accord started in the reparations meeting. Financial relief for Austria and the rest of Central Europe must be immediate to avoid a collapse. A world monetary conference is scheduled for September.

In the interim, Ottawa discussions may lay the groundwork for monetary reform in the sterling group which can be used as a basis for discussions in the September meeting. The German elections the last week in July and the American elections in November will help to remove further uncertainty.

Acme

GOVERNMENT IN BUSINESS—*The British Post office sends out a fleet of motorcycles to advertise its new type of dial phone—"The world at your fingertips." Sir Kingsley Wood, Postmaster General, inspects the cavalcade lined up in front of London's General Post Office*

Shall Price Level Rule Utility Rates? Yes, Says Wisconsin

Whole theory of rate-making involved in pioneer decision affecting telephone company

THAT utilities have a sacred and inalienable right to earn from 7% to 8% in these days is something which the Wisconsin Public Service Commission is not willing to admit. At any rate the Wisconsin Telephone Co. has been ordered to reduce its rates by 12½% on the basis of the 1931 receipts. Local users of telephone service in 102 Wisconsin cities and towns are going to welcome this saving of $1,550,000 during the year while the commission is finding out whether it was a wholly justified slash. The commission insists that the new rate will be sufficient to assure 6% on the common stock.

A Mystic Formula?

Woven into the fabric of this case is the popular notion that, even though values of all things have shrunk, some mystical formula seems to keep the cloth of utility values immune from similar shrinkage. Wisconsin has a unique flair for capitalizing such quirks of public sentiment into quicker administrative action than most other states. Consequently, that state looks again as if it would take the lead in wrecking a hallowed precedent.

That precedent exists in the hundred and more court and commission rulings which have fixed utility rates at levels calculated to give wholesome assurance of the capacity to earn somewhere between 7% and 8% on property values. Wisconsin brushes it aside with the observation that "while the tendency of the courts in recent years has been to give primary consideration to the cost of operation and return upon value, it must not be forgotten that it is still the law that rates, regardless of their effect upon the financial condition of the company, cannot exceed what the services are reasonably worth." And the commission contends that, because of the decrease in the average family income due to the depression, the value of telephone service has fallen.

American Telephone & Telegraph is expected to fight this drastic onslaught on its child's pay envelope. A. T. & T. has a reputation for an accounting and appraisal thoroughness which has enabled it to weather several storms of this character. It is not likely to let a half century of laborious effort to stabilize its holdings trickle away by default on the raising of such a revolutionary issue.

Hugh White, president of the Alabama Public Service Commission, not long ago told an assembly of purchasing agents that "in times of prosperity the utility will be expected to operate for a profit that is not in excess of a fair return and when times are bad and the utility suffers a large loss of business, equally with private enterprises, the utility can scarcely hope to earn an adequate return." This sounds a bit like "Heads I win, tails you lose" but it probably would be fairer to interpret it as saying that the utilities have arrived at an age where they should be able to survive on a cyclic average of less than 7% or 8%.

On the surface it makes little difference whether rates go down with commodity prices, rates of allowed return on fixed plant values go down with average earnings on all existing investments, or book values be pared to match the lower costs of plant reproduction. Utility security owners will feel the pinch just the same whichever happens. Savings banks and insurance companies, too, will find their reserves shrivelling equally under any of the three processes.

Forces the Issue

So this Wisconsin decision to force rate cuts in advance of proof that judicial economics will justify them is fraught with interest. It bids fair to bring into sharp relief those factors which the present depression has emphasized. Current competitive commodity prices respond promptly to depression influences but capital obligations resist change until liquidation and repudiation bring them into line with the new dollar indices. Whether the courts will confirm the established formula for stabilizing utility values on a composite of historical cost, prudent investment and current reproduction value, with the latter dominant in the past, is the real question at issue. The answer is vitally important to those who look upon giltedge investments as preordained to escape the catastrophes which business cycles force on day-by-day commodities and upon speculative holdings.

It looks, therefore, as if this controversy would be made the focus for two distinctly opposing camps of thought. One says utilities must, under regulation, reflect stabilized values—modest earnings in boom times and subsistence earnings on the same book values in depression times. The other camp forgets such restraints of the past and insists that today's hard-to-get dollar should buy more telephone convenience as well as more of those things that pass over the merchant's counter. It's a knotty problem for the courts and it seems fairly certain they will have it to solve. Maybe the federal courts will wish they had never tried to juggle such economic silk hats, canes, and lighted cigars. The judge's robe is an awful handicap to expertness in such jugglery.

McKesson & Robbins Plan Is No Longer Suspect

DISMISSAL by the Federal Trade Commission of its complaint against McKesson & Robbins, Inc., of alleged violation of Sec. 7 of the Clayton Act (*BW—Jan.8'30*) closes a case that has attracted considerable attention among companies with national distribution.

Engaged in the manufacture of drug products and proprietary preparations since 1833, McKesson & Robbins, Inc., distributed through independent wholesalers and retailers. When chain drug stores operated by national and local chain organizations began to interfere seriously with the normal flow of its products, the company decided to set up its own national distributing organizations.

Within a comparatively short period it acquired 55 additional wholesale drug houses which, added to 11 already owned, gave the company controlled distributing organizations in 66 cities. Through these it has extended special sales and merchandising service to over 35,000 retail druggists of whom a considerable number have taken advantage of the "McKesson Plan," bought some stock in the company, agreed to make 75% of their purchases through it, and thus provided more satisfactory distribution for the company's 40,000-odd products.

These drugggists have found this method of sales and merchandising cooperation particularly helpful in getting a fair share of volume on the nationally advertised brands, around which chain store competition revolves and which,

therefore, still form over 50% of the company's total volume.

In its answer to the complaint, which charged that the company's plan of operation and acquisition of wholesale houses constituted a tendency to monopolize the market, McKesson & Robbins stated that the plan had been devised to combat the threatened and at times imminent domination of the market by chain stores. It pointed out that none of the houses acquired had been in serious competition with each other, that it had been forced into the set-up to insure satisfactory retail distribution.

With the complaint dismissed it is probable that other large manufacturers will adopt similar plans.

Even Corona Corona Can't Pay For Traditions These Days

So American Tobacco moves its cigar plants from Havana to Trenton (N. J.) to cut costs, prices

Corona Corona, king of cigars, and kindred Havana aristocrats, no longer will furnish work for the facile fingers of Cuban cigar makers. Hereafter they will be made in Trenton, N. J. These lordly brands of the American Tobacco Co. still will be made of fine Cuban leaf, blended and prepared in its native country. Manufacture, a century-old Havana industry, has been transferred to effect economies which will lower retail price, and so allow the company to prop up the falling line of sales.

Not an Easy Decision

American Tobacco took this revolutionary step after long and prayerful consideration. Its executives decided that the surest way to build demand in these times was to lower prices. But that labor costs and uneconomic methods of the Havana tradition prevented. The shift to Trenton does several things: It removes the constant pressure and higher costs of a militantly organized Cuban labor; it cuts tariff costs since the leaf enters the country at a much lower rate than do the finished cigars; it creates savings which enable the company to inaugurate a determined sales drive; it furnishes a better cost basis for export to other countries.

The trade is promised prices which will allow retail sales at one-half former figures. Coronas that sold at 60¢ each are expected to drop to 3 for $1. Other famous brands affected are Cabanas, Henry Clay, Villar, Bock, Manuel Garcia, La Meridiana.

Supremacy of its smokes lulled Havana into the assumption that its position was impregnable. The province of Pinar del Rio, on the western snout of Cuba, produces a leaf which no other spot of the earth's surface can equal. Havana cigar makers, organized in airtight unions, had the industry in their hands. Trouble came when they squeezed too hard. Last January a strike began. Wage disputes could not be compromised. Habits expensive to the companies had become ingrained. A cigarmaker, given 25 pounds of high-priced tobacco, would produce 20 pounds of cigars. Leaf was wasted. Workers rolled their own (often 10 a day) and, through expensive vapors, listened to the reader who regaled them with throbbing romance and sanguinary adventure. Probably they never believed that Henry Clay and Bock & Co. would make good their threat of pulling stakes and transferring plants to the United States.

This company is an American Tobacco subsidiary known in Cuba as the Tobacco Trust. American Tobacco bought into the industry right after the Spanish-American war and has dominated the field even since. If the Havana workers had studied their statistics more carefully they would not have been so sure of their position.

Cigar Smoking Drops

Cigar smoking—from stogies on up—has been declining. Slump in sales was naturally felt most severely by the haughty Havanas. In 25 years export of fine Cubas fell from 300 millions to less than 50 millions annually. During the same period sale prices soared—the average from $65 per 1,000, to $110. The manufacturer's profit was no higher on the last figure than on the first. Something had to be done about it. Emigration was the result.

The Trenton plant—now building—will artificially produce ideal atmospheric conditions every day of the year. Skilled Cuban foremen are to supervise operations to guarantee reproduction of the size, shape, tightness of the famous brands. •American Tobacco executives believe that cigars should be made by women. They have the finger dexterity; they don't mind the monotony and therefore don't need story readers; they are more tractable. Company instructors are now training the 1,000 who will operate the Trenton plant.

Cuba has one consolation. A farewell message pointed out that the move to the mainland would increase the sale of the cigars, increase the demand for Cuban leaf, furnish more work and more money to the island's agricultural workers. The company plans great increases in its Cuba plantings. In 1931 it had 311 acres of wrapper tobacco under shade and irrigation in Pinar del Rio. This year it is planting 575 acres, spending $800,000. Further expansion is expected next year. Result will be greater demand for all tobaccos grown in the province.

All that remains of the Havana activities is the cigarette and cigar production for the Cuban market. This has been sold to another company. A special agreement prevents use of the local cigar brands in export trade.

Two-Bit Caps Capture Exclusive Curbstone Trade

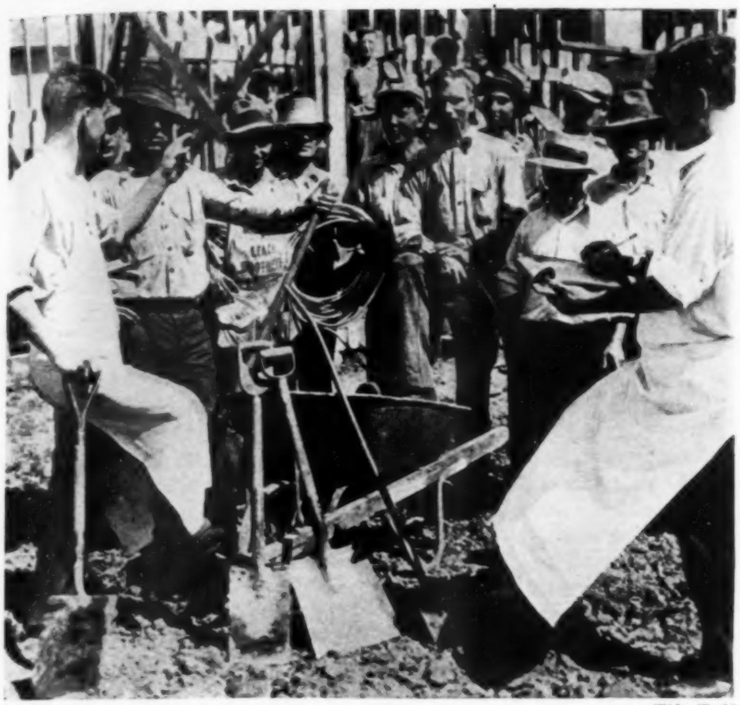
White caps—at a quarter, gents, only a quarter—are breaking over Broadway, sweeping into Brooklyn and the Bronx, threatening to engulf more distant cities. The beaches are swamped. Even the bare-headed cult has succumbed to the two-bit headdress.

Where the white duck tidal wave started, no one really knows, but already there are trade legends of smart young fellows with borrowed money who had some caps made up at $1.75 a dozen to peddle for 25¢ at Coney Island.

Now, city streets and resort roads are lined with peddlers, equipped only with large hatboxes and loud voices. Trucks rush fresh supplies to strategic points. Cap factories work overtime.

According to President Max Zaritsky of the Cloth Hat, Cap, and Millinery Workers Union, at least 50 factories employing over 700, are working to get theirs while the getting's good. There are no trade standards, no brand names. Prices seem stabilized at two bits as the industry has not yet reached the saturation point with its inevitable price-cutting.

Already, there is talk of going national. If anybody, by any chance, remembers what that means.



Wide World

HOUSE THAT BILLS BUILT—*Anton and John Grohar, of Joliet, Ill., persuaded out-of-work customers who owed them for groceries to build a new store at 50 cents an hour, to be applied to their accounts*

Non-Run Hosiery, Due This Fall, May Run Out Non-Profit Prices

NON-RUN, full-fashioned silk hosiery will make its market debut in a big way this fall. The industry regards it as a momentous event.

Manufacturers who are going into production naturally are betting considerable sums that the American woman has been waiting for years for genuine non-run stockings, and that non-run hosiery will capture the whole stocking market. But buyers in the trade are waiting to see what they look like. Are they sheer? Are they just as pretty? And what will they cost? It is predicted they will be priced a little higher than straight knit stockings at first—like mesh, lace, and other novelties—but that competition will eventually make non-run hosiery, if it catches feminine fancy, as cheap as any other.

Patents for knitting stockings that will not run—i.e., with each stitch locked—have been granted in the past few years. Now, commercial production is about to begin. Berkshire Mills will show its line in August, the trade believes. It will manufacture under the Schwartz patents. Gotham, another big producer, will make non-run stockings under the Graenz patents. Both patents provide an intricate weave, so designed that the breaking of one loop does not release others. The loops have been used before, for ornamental effects. The patents' validity is defended by the promoters, however, on the ground that they cover use of the loop designs for entire fabrics, which is new. The new weaves are said to call for extensive readjustment of machines, but not for installation of entirely new machines.

Life seldom is dull for the makers of silk stockings; today, it is more exciting and complex than usual. The hosiery man has on his mind just now: (1) wage negotiations with the union; (2) a 20% price cut by the producer who is perhaps the biggest of all; (3) the prospect that a new product to appear this fall may upset all old lines; and (4) poor business.

Union negotiations were getting along pretty well, with employers reluctant to reduce wages further and employees convinced an increase was impossible. Then, bang! Berkshire Mills, non-union, shot into the market a silk stocking at $4 a dozen, strictly comparable with the grade that has been selling at $5. Negotiations with the union were interrupted promptly; employers exercised their right under the existing agreement to take time out for further consideration.

The industry says Berkshire's $4 stockings cost probably $4.25 and that the management deliberately plans to capture volume in order to provide work for its own employees. The loss will, in effect, be charged to philanthropy—under whatever heading the actual bookkeeping entry is made. This is very nice for Berkshire employees, some 3,000 of them, but apt to be a little tough on other hosiery workers and hosiery makers. Other makers have met Berkshire's price challenge.

Business is so dull that mills in the Philadelphia district, center of the industry, shut down for 10 days from July 1. Some will not reopen until they see orders.

Year Without Night-Work Urged to Steady Cotton

COTTON mills of the United States can supply the entire needs of the market in normal times by working a single shift—and these are far from normal times. Hence the recommendation of the Cotton-Textile Institute that all night work be abandoned for a year, beginning Oct. 15.

Mar. 1, 1930, the industry gave up the employment of women and minors in night work. When that agreement expired at the end of a year, it was renewed enthusiastically, and today 87% of the spindleage adheres to it. Results are conceded to have been excellent, sociologically and economically.

The proposal to abandon night work entirely, at least until demand shall reach something like its boom-year peaks, is a logical extension of the first cooperative movement. Proponents of the idea contend that the abolition of night shifts will tend to stabilize markets, and argue also that there are social benefits to the whole community in the change.

Directors of the Institute promptly accepted the recommendation for themselves, and thereby signed up 9 million spindles, which is 30% of the industry's total 31 millions. Canvass of the remainder of the industry is under way.

Textile men say there will be little difficulty in getting the adherence of

75% or so of the capacity. But the directors of the Institute are understood to feel that will not be enough. Before the agreement is put into effect, they want it to comprehend even more spindles that that on women and minors. Say 10% of spindles refused to go along; working two shifts, while the rest work one, they become 18% of the industry's capacity, and that might be enough to wreck markets.

The economy in the 2-shift arrangement is in cutting overhead—output is approximately doubled for virtually the same overhead. In a field where profits are as thin as in cottons today, this can be a considerable competitive advantage. Proponents of the one-shift plan hope to be able to convince reluctant members that an improvement in the steadiness of the market—once the threat of overproduction is removed—would profit them more than any possible economy from night running.

Westinghouse Shows Value of Employee Sales

FINAL returns on the Westinghouse employee sales campaign (*BW—May4; Jun22'32*) show how valuable an adjunct to the regular company sales effort this kind of a drive can be when it is properly organized, purposefully followed up. Instead of their anticipated one order per employee, Westinghouse's 35,000 workers made 54,500 sales totaling $2,600,000 and landed 80% of the prospects they reported.

Since electrical appliances sold in this campaign—labor-saving devices predominating—are calculated to consume a normal 30 millions kw.-hr. of current a year, Westinghouse employees figure that they have added approximately $4¾ millions additional revenue to the annual utilities income.

And since all employee sales were routed through established Westinghouse dealers—a feature of the campaign particularly interesting to other manufacturers contemplating similar projects—the company counts an increase in dealer good-will as an important by-product of its effort.

New Coal Wages Likely To Shift Market Lines

ILLINOIS coal miners are confidently expected to ratify the agreement their leaders have made with operators, calling for a new wage scale based on $5 for average day labor, against $6.10 under the agreement that expired Mar. 31. If accepted, 50,000 miners will go back to work, in the Illinois fields.

It is not improbable, however, that Illinois' gain in employment may be a loss to fields south of the Ohio River. With a freight differential already in their favor, Illinois producers once more are in position to preempt what they regard as their natural markets—the great industrial districts centering on Chicago. Wage rates in the Southern fields are believed to be so low already that it will hardly be possible to meet the Illinois wage cut.

Gain for Mechanization

Moreover, it is significant that the heaviest cut imposed upon any classification of labor is the 30% slash in the wages of the men who operate the mechanical loading machines. They have been getting $10.07 and will get $7; their helpers are cut from $9 to $6. Illinois mines have become highly mechanized since 1924, which is one of the factors that has kept them alive against the low non-union scales south of the Ohio. The new scale plainly is designed to emphasize this advantage.

Illinois miners' agreement runs only until next Mar. 31, the shortest wage agreement ever signed in the field. It is notable for another reason—it gives the operator the option of running one 8-hour shift, or two 6-hour shifts. This is the first operators' recognition of the 6-hour day.

Meanwhile, Indiana operators are left out on a limb. They reached a $4-a-day scale agreement with union delegates and its acceptance was predicted. But things did not go through as planned. Union officials, in a district meeting kicked over, and refused even to submit the scale to the rank and file. Operators threatened to reopen non-union offering $4 a day to such men as cared to work. Union members then initiated steps to force a referendum. There the matter stands. The Indiana field produces 13 million tons against Illinois' 44 million.

Wage reduction in non-union mines of West Virginia, including Consolidation and Bethlehem, precipitated trouble. There have been strikes, and the union asserts it is overwhelmed with applications for membership. Non-union rates, however, remain somewhat above the union scale.

Strikes Settled

Following a strike, Pittsburgh Terminal has arrived at a new wage rate effective July 1. Various Ohio mines are operating again after being strikebound. Colorado Fuel & Iron led the way to general wage reductions in that district, and brought severe denunciation from the State Industrial Commission.

Wide World

AUTOMOBILE MEN TO THE RESCUE—*Charles T. Fisher of General Motors, Mayor Murphy of Detroit, B. E. Hutchinson of Chrysler Corp. and Edsel Ford (left to right) participate in conferences to try to bring order out of Detroit's financial chaos. They hope to develop a 5-year plan that will enlist the cooperation of striking taxpayers*

New Taxes May Bring Revenue, But First They Cause Headaches

Deplorable ingenuity expended on avoidance keeps Internal Revenue Bureau busy day and night

So far, the new tax laws are mostly a headache. The Bureau of Internal Revenue in Washington has increased its personnel and is working nights in an attempt to cope with the hundreds and thousands of problems of administration. Rulings are issuing in a steady stream, but here is one industry where production lags hopelessly behind demand.

When Senator Reed of Pennsylvania read to the Senate a form of order to pay and stated that he had Treasury opinion that it was not subject to the 2¢ tax on checks, he started something. The original idea was that the order might be used by creameries with thousands of daily checks to write for small purchases of milk. No one foresaw how widely the plan would be adopted. Businesses everywhere are planning to use a system of drafts upon themselves, payable at a bank, and covered at the end of each day's business by a single check. The New York Clearing House and clearing houses in several other cities have responded rather reluctantly to pressure from large depositors and have announced that they will give the necessary cooperation.

Not an Unethical Move

Officials of the Bureau of Internal Revenue remark that they do not think this form of tax avoidance is unethical. They recognize that numerous companies with hosts of small disbursements to make would be put under an unreasonable tax, otherwise. Moreover, the Treasury does not intend to be put into the position of encouraging a greater use of currency. So Washington will cooperate in an attempt to arrive at a reasonable and not too strict interpretation of the law.

Some banks have worked out a "receipt"—"Received from the Whatzis State Bank, $—— to be charged to my account." This form is tax-free; it takes the place of the taxable counter check.

In spite of all this, the check tax is going to produce large revenue—though perhaps not the $78 millions Congress estimated. To most businesses and most private depositors, the convenience of a check payment is so great, and the nuisance of avoidance is so big, that the tax will be paid.

Chiseling and various forms of gyppery have blossomed in the shade of the new tax laws. For instance, many a disgusted manufacturer, wholesaler, or jobber has received a sheaf of letters from customers reading, "On account of the burden of the nex tax on checks, and the new postal rates, we will not hereafter pay for goods weekly, but once each month. We shall, of course, expect the usual cash discount."

The dodge is perfectly transparent—the tax and postage savings involved are often in the order of 9¢ on transactions running into thousands of dollars. What the customer really is demanding is as high as an extra month's credit on cash discount terms. The bigger the customer's trade, the more certain he feels that the seller will give in.

Credit Men Protest

The National Association of Credit Men asserts the movement to break down standard terms of credit is growing to alarming proportions. Henry H. Heimann, executive manager, has appealed to members to desist from such chiseling themselves, and to resist stoutly when customers try it.

Textile mills seem to have shown the most backbone so far. They are reported to have presented a united front to jobbers and wholesalers, flatly refusing to permit consolidated payment of accounts in one check at the end of a month.

The gay game of trying to pin the tax on the other fellow is much too complicated to follow in all of its ramifications. There is no general rule, except the broad and perfectly understandable one that the stronger side wins. If the wholesaler has the whip hand in any line, he makes the manufacturer absorb the tax. If the manufacturer can stick it on the wholesaler, he does.

There is, naturally, considerable quiet cheating by retailers who are raising prices on goods stocked before the tax went into effect, on the plea, expressed or implicit, that the tax made the merchandise cost more.

On this there is a ruling. The Bureau of Internal Revenue very solemnly pronounces that naturally a dealer has the right to set any price he likes on the merchandise he sells, but if he gives the tax as an excuse for raising prices when the excuse is not true, or if he raises the price more than the actual tax, giving the tax as the reason, he is guilty of a misdemeanor and upon conviction may be fined as much as $1,000 or imprisoned as much as a year, or both. It is also a criminal offense falsely to give the tax as a reason for raising prices on goods in his stock June 21 when as a matter of fact he is taking advantage of a competitive situation.

Now to Enforce It

All that is necessary to enforce this ruling is a corps of inspectors big enough to scrutinize the books and the inventories of a few hundred thousand retail stores in 48 states and the District of Columbia.

The Bureau's present staff is too busy struggling with delicate questions like this: What is commercial use of electric energy and what is industrial use? Schools, hospitals, and various other institutions of semi-public or semi-philanthropic nature are stoutly asserting that their use of current is not commercial. Yet admittedly they charge for their services to their patrons. Newspapers, it has been ruled, are not in commerce; they are industrial and they are exempt from tax on electricity. Public utilities cheerfully noted a ruling that municipal plants would not be permitted to absorb the tax.

As might be expected from such a slippery, fluid commodity, lubricating oil is giving the tax authorities plenty of trouble. Refiners, too. Some of them have contracts with railroads for supplying lubrication on a mileage basis. They'll do the handsome thing by anyone who can show them a way to pass that tax along; nobody has figured it out yet.

A Leak Unplugged

Meanwhile, it is said to be doubtful whether Congress, in its present legislative jam, can get around to passage of a remedial measure intended to plug an obvious hole in the law whereby some 60 million barrels of gasoline and lubricating oil will escape tax because title to it was transferred from the oil companies to other corporations and individuals before the law went into effect. The bigger refiners are getting anxious; much of this oil will come into competition with their own tax-paid gas and oils.

It has been left to the bureau to determine whether or not lubricating oils which form an ingredient of ink,

of spray liquids, of insecticides, and other products are to be taxed in view of the fact that they are not used as lubricants. Is road oil a lubricant? It has been found that mineral oils used principally for medicine are widely used as lubricants in laboratories and in connection with certain machinery. The tax is applied specifically to lubricating oils.

Another serious difficulty arises in determining the manufacturer from whom a tax must be collected. For instance, the owner of a patent is regarded as the manufacturer but there are instances where one manufacturer produces articles under orders from a large number of others.

Manufacturers of silver flatware have hit upon the ingenious idea of billing knives, forks, and spoons at $1 each, instead of $12 a dozen. Articles selling at $1 would, of course, be exempt from tax.

Latex-Coated Paper Solves Many Printing Problems

Research has found another market for rubber, solved some old problems for printers. Lexene-coated paper, announced by the United States Rubber Co. last week, is one more on the growing list of latex products developed by this company.

Latex is the milky fluid which flows from the inner bark of the rubber tree in tapping. Until about 15 years ago, when U. S. Rubber began experiments with it, latex was just the raw material of rubber. Now, it comes overseas in tankers, is pumped into tank cars at shipside, is used directly in the manufacture of many rubber products and in some fields in which rubber formerly had no part.

Paper Makers Market It

The patented latex formula used in paper is called lexene. It is handled by Naugatuck Chemical Co., U. S. Rubber subsidiary. Several important paper manufacturers, Oxford and Dill & Collins among them, have been making and marketing lexene paper for a year.

The new ingredient may be used in the coating, in the body stock, or in both. In appearance, lexene paper differs little from ordinary coateds. To the experienced eye, it looks better, grade for grade, has characteristic feel associated formerly only with high-priced dull-coated stocks. There is no rubber odor, no stretch (which eliminates at the start all suggestions for its use in printing checks).

It is by its accomplishments, not its looks, that the new paper has made a name for itself among printers. Since the first Gutenberg proof was pulled, these original gentlemen of the press have struggled to combine inflexible type and elastic paper. Type is a known quantity. Paper is as undependable and as treacherous as a lady villain. It curls, stretches, shrinks. It is brittle, and should be folded with the grain. And its response to atmospheric stimuli is notorious, especially among color printers.

Lexene tames paper for the printer. By stabilizing the water content of the sheet it overcomes to a great extent the tendency to curl, shrink, and expand. Rubber itself is non-absorbent, so lexene-coated paper uses less ink. The ink "lays" better, too; blacks are deep and even; drying is more rapid. Some of the inherent flexibility of rubber is transmitted to the paper, increasing the folding strength and reducing the tendency to crack.

Lexene paper has had a thorough test in the trade. Printers claim it has reduced curling troubles, permitted faster presswork, saved on ink. Lithographers welcome it because it works well on both sides. No special technique is necessary in handling it. Prices are comparable to other coated stocks. Tangible savings in spoilage make its costs often lower than regular coateds.

Steel Sees the Logic Of Economy Mergers

In the boom days Wall Street echoed with rumors of steel mergers and its emissaries spent tireless days high-pressuring "logical" merger candidates with alluring prospectuses. Old-line companies resisted the blandishments, particularly after the Bethlehem-Youngstown fiasco. But depression has a new logic. Merger rumors are again heard, though less in Wall Street than in the steel plants, and with the emphasis on economy values instead of the possibilities of high financing. First fruit was the Corrigan-McKinney-Newton hook-up announced this week.

Corrigan-McKinney Steel Co., of Cleveland, O., has been a leading producer of semi-finished steel products since 1896. For a long time the Newton Steel Co. of Newton Falls, O., and Monroe, Mich., specializing in sheet steel for the automobile trade, has been one of its most important customers. Corrigan-McKinney, closely held, is unique among big steel companies in that it has no bonded debt or preferred stock and only about 2,500 shares of common distributed among some half dozen big stockholders, majority control lying in the hands of Cleveland-Cliffs Iron Co., Mather-Eaton interest. Newton, which came up into the automobile country with a new $3-million sheet mill at Monroe 2 years ago, now needs additional working capital which the Cleveland firm can supply. Logical result is a merger uniting the 2 concerns on a stock exchange basis without new financing. Unless Newton stockholders object it will take effect Aug. 15.

Lumber and Cement Bid For Low-Cost Home Orders

To the drive for economical housing the West Coast Lumbermen's Association contributes a device that it believes will help. One of the major labor wastes in construction is the piece-by-piece cutting of lumber on the building lot by high-priced carpenters. Sears, Roebuck has successfully utilized central plants and high-speed machines for cutting boards and timbers to standard lengths for assembly on the lot. This general scheme is followed by the Lumbermen's Association. Joists, rafters, studding, plates, etc., are pre-cut by power machines with precision gauges which result in accuracies impossible through handwork. In this way, three-fourths of the lumber for an ordinary house can be fabricated at the mill. Stauncher construction and greater economy results.

Another mass-production plan has been announced by the Elliott Plywood House Corp., Aberdeen, Wash. It will produce a 3-room cottage to sell for $385. Units will be put together with a special waterproof glue. It is estimated that two men can erect the 3-room cottage in two days. Homes up to 6 rooms will be available, also small camp and summer cottages.

The Portland Cement Association makes a further contribution to low-cost housing. It has completed designs for a

MODERNIZATION DEMONSTRATION—*Half of this old house has been brought up to last-minute style and convenience; half is untouched. It stands in Grand Circus Park, Detroit's busiest plaza*

Chicago fireproof apartment project which would have monolithic concrete walls with cinder-concrete lining, concrete floor slabs cement finished. Building cost is $472 per room including interest, insurance, landscaping, architect's fees, equipment. Rental per month, per room was found to be $6.04.

Concrete also gets a break in the plans of the Allied Construction Industries Standardized House Conference, Los Angeles. Its architects, engineers, construction executives announces a new type of house, with 1,000 square feet of floor space, made principally of fabricated steel and concrete, to sell at $2,000 including the land. The steel comes in room-size units suitable for homes or apartment houses. Door frames, window frames, piping, conduits are put in place at the factory. Exterior walls are reinforced concrete plates. Interior plates are gypsum or concrete masonry.

Some Industries Are Getting Around an Important Corner

WHILE some businesses are still fatuously waiting for the trend of events to drift them around that mythical corner where prosperity is supposed to be waiting, others have been pulling themselves around a real corner in coming to a decision to help themselves by cooperative relief measures. Latest to make the turn are the self-helping railroads (*BW—Jul13'32*), the furniture industry, with its announcement last week of the Furniture Reconstruction Council, the tire manufacturers with their agreement on an advisory council.

Drifting has been highly disastrous for the furniture men. Lawrence H. Whiting, chairman of the board of directors of the American Furniture Mart, sums up the results:

Manufacturing volume off over 60% since 1929; retail volume down 35% to 50% from 1931 to 1932; prices down 40% from 1929; retail losses in 1931 greater than profits of 1929; retail failures for the first 5 months of 1932 at 1,443 against 1,447 for all 1931.

Individual efforts at a price guarantee (*BW—Jan13'32*), attempts to arouse buying interest through novel lines (*BW—Feb3'32*) haven't helped much. So furniture has decided on cooperative resistance to the drift.

Purposes of the new council will be:

To prevent, as far as possible, the dumping of "close-outs" and distress merchandise on the market.

To discuss the practicability of manufacturing furniture only on adequate evidence of demand, thus eliminating unwanted merchandise that must be sacrificed later.

To discourage the manufacture of costly samples which are never put into production.

To cooperate with bankers to prevent unnecessary killing off of manufacturers and retailers.

To encourage orderly liquidation of stocks if necessary.

Whole Industry Represented

This program will be shouldered by 6 manufacturers representing leading production centers, 6 retailers prominent in the trade. A. P. Haake of the National Association of Furniture Manufacturers, R. R. Rau of the National Retail Furniture Association, James Ryan of the Southern Furniture Manufacturers' Association will be ex officio advisers. They have a big job ahead and a lot of corners to turn. But furniture men who say that prosperity isn't around any corner they know of are hopeful that wholesale bankruptcy may now lie back of the one that their industry has just rounded in deciding to take reconstruction in its own hands.

The rubber industry—which means chiefly the tire manufacturers—see a similar corner negotiated with the appointment of a rubber "advisory committee" made up of bankers and industrialists, headed by George T. Bishop, president of Continental Shares, large stockholder in tire companies. This committee will tackle some of the industrial disputes that have helped to make tire stocks what they are today. The industry suffers no illusion about the war being over at this stage of the proceedings. Oil companies and mail order houses are still splitting the tire business wide open, independent dealers are still up in arms, and competitive advertising is still salting a lot of wounds. But even the setting up of machinery for cooperation puts the industry around the corner from the road down which it has been drifting.

Courts Set a Limit On State Truck Control

GRADUALLY, the courts are building a body of law regulating motor trucks.

A state (Texas) may determine for itself the size and weight of the vehicles

it will allow to use its highways. It may lay down requirements for insurance and taxes required of vehicles, to which all must conform (Missouri). But it cannot require of private carriers a certificate of convenience and necessity.

Montana tried the certificate plan. The court knocked out the law, which, it asserted, was plainly not an effort to regulate the highways in the public interest, but an effort to prohibit competition. Trucks carrying their owners' goods as greatly endangered life and limb, used the roads just as hard, as trucks carrying goods under contract, the court remarked, and the state could not legislate to discriminate between them.

Count of Women Riders Surprises Bus Lines

HALF the passengers on long-distance buses in summer are women; in winter, the proportion still is one-third. From such statistics as are available, it is believed not more than 25% of rail passengers are women. A little unexpected also is the large number of women willing to ride long night trips.

The survey was made by *Bus Transportation*. Bus operators regard the information as highly important. It affects the planning of terminals, the character of advertising, the training of personnel.

Somewhat astonished to discover the proportion of women so high, operators suggest as reasons the keenness of women for economies, the fact that women have more opportunities to take trips and more time to devote to any given trip, and finally, the fact that they find the bus much like the family automobile to which they are thoroughly accustomed.

The I.C.C. Proposes; The Depression Disposes

EVENTS in these swift-moving years move faster than the ponderous machinery of government. Which sometimes is just as well. Take railroad valuation—it goes on and on, and suddenly economic upheaval makes it all mean very little indeed. And take the recapture of railroad earnings; the railroads just now can't capture any earnings to be recaptured, and Congress is expected to repeal the whole thing next session, anyhow—but in obedience to law, the Intertsate Commerce Commission goes through the legal motions—the latest to set 26 recapture cases for hearings within the next 4 months, and to ask the Department of Justice to bring suit against the Richmond, Fredericksburg & Potomac, before the statute of limitations intervenes.

And then there's the Eastern four-system merger—how exciting that was a couple of years ago, with the big railroads scrambling for control of strategic lines, and jockeying cannily for position. Well, the I.C.C. is about ready to announce its decision, and nobody seems to care very much.

In the best of times, it would take the four key roads a long while and a lot of money to effect consolidation. Just now, the thought of financing new construction, acquiring further control of needed links, and swapping securities has a grimly humorous tinge to Messrs. Willard, Atterbury, Van Sweringen, and Williamson.

New York to Get Store-Door Service

STORE-DOOR delivery for New York's metropolitan district, long delayed by carrier jealousies over this meatiest of freight territories, is to become a fact on Sept. 15. All railroads serving the city and its environs cooperated in working out the plan. Critics had long advised the step as an intelligent means of combating truck competition which had a tremendous advantage in taking and delivering freight at loading platforms of plants and stores.

The new service will include pick-up and delivery of non-perishable carlots only. Plans for less-than-carload shipments are "under investigation." A uniform extra charge will be tacked onto the freight and the amount will be governed by weight, not by distance traveled. The service is available for shipments originating over 100 miles away. The extra charge will range from 6¢ a 100 lb. for shipments of 36,000 lb. or more, to 20¢ a 100 for shipments under 14,000 lb. Service is to be optional.

The roads have not yet decided what trucking agencies to employ. Probably they will give the business to existing firms.

Warehousemen Want Railroads to Keep Out

RAILROADS in New York City take a loss on extensive warehousing operations, believe their policy justified because thus they hold old business and attract new. Private warehousemen don't like their competition and have sicked the I.C.C. on the roads. Incidentally, the warehousemen are of divided counsel. Some of them contend railroads should be compelled by the I.C.C. to get out of the warehousing business. Others admit the railroads' right to engage in warehousing, but want them compelled to charge rates that at least cover their costs.

Incidentally, there is not much nourishment for the warehousemen in the proposal; their own investigator reported the railroads could make money at 1¢ a cwt. Average private warehouse rate is 3¢.

Oil-Coal Fuel Interests Countries Importing Oil

BURNING a mixture of 60% fuel oil and 40% coal, the Cunarder *Scythia* steamed from New York to Liverpool last week and at the end of the voyage, Cunard engineers reported enthusiastically on the efficiency developed.

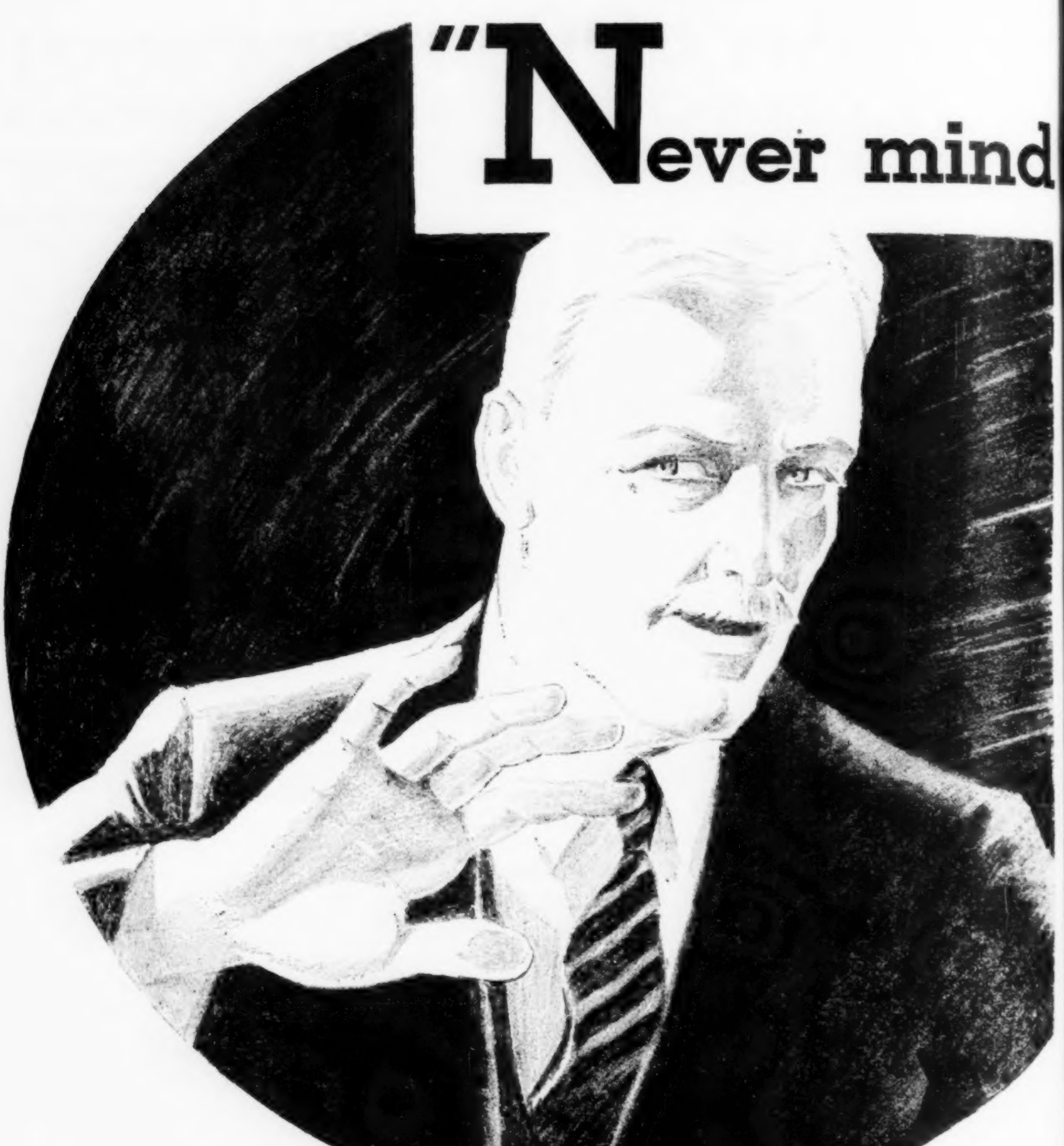
Combustion engineers in New York were interested, but not excited. They recalled that William Todd of the Todd shipyards had been an enthusiast over the possibilities of the mixed fuel, and had demonstrated rather conclusively that the trick could be done. But oil now is cheaper than coal. So why bother?

England, it was suggested, would be much more deeply interested than America. Britain has a coal industry that needs markets; Britain has no domestic oil supply. In time of war, moreover, it would be a great strategic advantage not to have to devote so much tonnage to transporting oil and convoying tanker fleets. Retaining the advantages of oil burner equipment, the coal-oil mixture would cut down by 40% the amount of oil Britain would have to import to supply her navy and her great mercantile fleet.

The same arguments would have force in any other country possessing coal but no oil—as France, or Germany. Advantages to the United States, unless the price of fuel oil goes soaring, are not apparent.

Tests during exhaustive investigations in New York indicated that a 60-40 mixture of fuel oil and pulverized coal packed about 5½% more heat units in the same cubic content. A patented ingredient, costing about the same as fuel oil, is added to keep the coal in suspension.

"Never mind



nd he details . . .
ust write the advertising"

The business man who expects an advertising agent to sell his product without having all the facts of his business is like the patient who expects a doctor to help him by "absent treatment." It may work in a few cases—*but the chances are it won't work in yours.*

Good advertising isn't just bright inspirations and fancy phrases. Good advertising is the sum of facts *plus* imagination *plus* sales-producing ideas. Given the facts, the advertising agency is capable of supplying the other ingredients. *But it must be given the facts.*

Let your agency men visit around your factory and your office. Let them see how your product is made, how your business is conducted. It may seem a waste of time to you. They may be discovering just the simple elementary things you've always known about your product. But it's often the simple elementary things that bring in the sales. The men who discovered that "nothing rolls like a ball," that a certain piston ring had the tension "hammered in," discovered details that the manufacturer knew well enough, but never thought of telling his public.

Give your agency men the whole-hearted cooperation of your sales and advertising department. Let your salesmen tell them the obstacles they run up against in their daily rounds . . . the new and unusual uses to which your product is being put . . . the stories of more-than-satisfactory service that they hear from customers. This is the stuff of which successful advertising campaigns are made.

Remember, your advertising agency is your professional advisor just as is your attorney. It deserves to be taken into your confidence just as fully. Tell your agency men all the facts of your business —the favorable and the unfavorable ones. They know how to take these facts and present your case in the most tactful, convincing style.

You'll find the advertising agency—if given your full cooperation—can produce effective, sales-building advertising. That's the one best reason why most manufacturers continue to use advertising agency service.

McGRAW-HILL PUBLISHING CO.
INCORPORATED
330 West 42nd Street · New York, N. Y.

Because McGraw-Hill's continued success depends upon the success of its advertisers, we publish this, the sixth of a series of advertisements on the value of advertising agency service in the creation of sales-producing campaigns.

Infusion of Trade Acceptances Would Strengthen Credit System

Big business joins move to stimulate their wider use for benefit of banks and business generally

This week will see the start of an intensive, well-organized, nation-wide drive to encourage the use of trade acceptances as a means of stimulating business and strengthening the commercial credit structure of the country. Following endorsement and sponsorship of the movement by the advisory committee of bankers and business men in the New York Federal Reserve district, organizations are being set up in each of the Reserve districts to stimulate adoption of trade acceptances. The efforts of these local groups will be coordinated through the national organizations of credit men's associations and the American Acceptance Council.

The National Industrial Conference Board has joined the movement by circularizing its membership of 1,500 leading business and industrial concerns, asking them to secure information on trade acceptances from their national organizations and to use this form of commercial credit instrument in their ordinary business relations with customers. In addition, more than a dozen leading industrial concerns such as U. S. Steel, General Motors, DuPont, General Electric, Westinghouse are publicly endorsing the movement and pledging themselves to use acceptances, both as buyers and as sellers.

Post-dated Check

A trade acceptance is a piece of prime, two-name commercial paper covering a specific current sale of goods and services, endorsed (i.e., "accepted") by the buyer and seller, and so drawn that it can be discounted by the seller's bank, or sold in the open market or rediscounted by a Federal Reserve Bank and presented to the buyer's bank for payment when due. It is in essence a post-dated check drawn by the buyer to cover an invoice for a current commercial transaction, payable within a specified period at the buyer's bank. It is best used in place of open-book account and ordinary credit terms to cover payments in a period from 30 to 120 days, with 90-day paper preferred because it is rediscountable by the Federal Reserve. In effect it reduces the current commercial credit relations of buyer and seller to a systematic negotiable basis, in a form which enables the seller to secure immediate payment through the use of bank credit based on the credit standing of both buyer and seller.

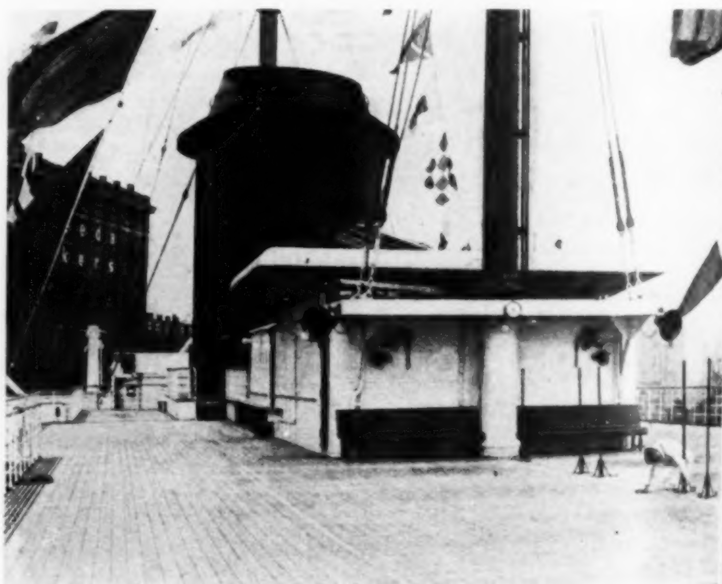
Active interest and considerable enthusiasm regarding the constructive possibilities of the movement are evident in the replies which the Conference Board has received and in the inquiries that have come to the Acceptance Council. Trade acceptances were a common form of commercial paper in American business up to the Civil War but gradually fell into disuse thereafter as the practice spread of carrying accounts on an open book basis, with discounts for cash or for payment within specified periods. The basis for establishing trade acceptances as part of our commercial credit structure and for building up a market for this kind of commercial paper was written into the Federal Reserve Act under the far-sighted leadership of Paul Warburg.

The Reserve Banks are permitted to rediscount trade acceptances in the same way as they do bankers' bills or other commercial paper, and the banking machinery for expanding their use is established, but, apart from a few concerns that have carried their current accounts on that basis for many years, most business men are uninformed about their nature and use and the bulk of American business is carried on open-book account. The National Association of Credit Men estimates that over $4 billions worth of business is carried on that basis normally, and it is considered possible to convert at least a quarter of this volume of current credit to an acceptance basis if the advantages of this method are widely enough understood.

This would be of great importance in strengthening the banking situation at the present time and in stimulating credit expansion and more effective use of excess bank reserves. The smaller country banks especially need and are eager to get good commercial paper as a means of employing their resources safely and in ways helpful to local business.

Would Strengthen System

Owing to ability of larger business concerns to finance their working capital requirements and accumulate large cash reserves through sale of securities in the bull market, the amount of commercial paper outstanding and available for purchase by banks and rediscount by the Reserve Banks has drastically declined in recent years from over two billions to a couple of hundred millions. This is one factor in the decreasing liquidity of the banking system, especially of the country banks, and a circumstance which made necessary the



No Ventilators—*The "Champlain's" funnel is ventilator, smokestack, exhaust, and passenger staircase. No wide-mouthed ventilators spoil the sweep of the top deck in this newest of French Line ships*

passage of the Glass-Steagall Act which permitted the Reserve Banks to substitute government bonds for commercial paper as a backing for Reserve note issues.

In addition, the wider use of trade acceptances is expected to stimulate business by speeding up the turnover of slow open-book accounts, putting a large volume of commercial credit on a systematic and more liquid basis, and generally encouraging larger use of bank credit. The increased use of trade acceptances by sellers, especially in the present period of credit stringency, tends to strengthen the credit standing of business concerns because acceptances, as pieces of prime commercial paper saleable in the market or rediscountable, are far stronger assets than accounts receivable from the banker's viewpoint.

Small Merchant's Prejudice

Among the important problems to be met in extending the use of trade acceptances are:, First, to break down the ignorance of the small merchant buyer about them and his prejudice against them arising from the unfortunate tendency of some selling concerns in earlier years to use them as "dunning bills."

Second, it is most important that concerns using trade acceptances in selling goods do not hold this paper themselves, but discount it or sell it in the open market, and that banks holding it discount it with the Reserve Banks. Otherwise there can be no effective expansion of bank credit through their use.

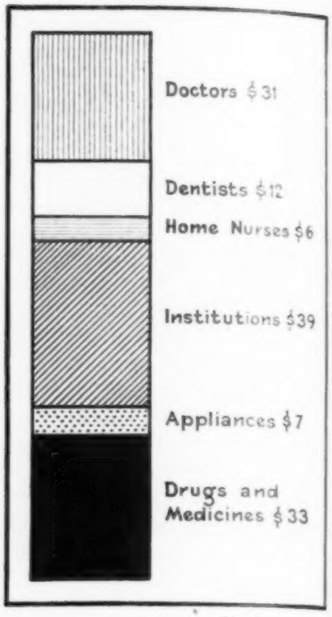
Third, the organizations interested in the trade acceptance movement will have to be zealous in preventing their use for purposes for which they are not suited, as regards the character of the commercial transaction covered, the terms for which they run, etc. Uniformity of banking practice in collection and payment as well as standardization of the forms used all create technical problems.

Must Broaden Market

Finally, it will be necessary to create and broaden the open market for acceptances among dealers and individual investors, and to establish standard rates on this type of paper, with regular official quotations by the Federal Reserve Banks. It is considered probable that the standard rates on trade acceptances will run somewhere between those on bankers' acceptances and those on prime commercial paper, but to keep the cost down and to prevent wide variation and confusion of terms it will be important to establish regular quotations by dealers and Reserve Banks, regular bank arrangements for financing dealers, and bank endorsement of acceptances to make them readily rediscountable.

We Spend $3 Billions a Year To Get Well, Or to Keep Well

13. The American Consumer Market —A Study by The Business Week



The Business Week

COST OF HEALTH—*What the American family spent to get well or to keep well in 1929*

JUDGING by mortality rates and other vital statistics, Americans are a fairly healthy people, but they spend a lot of money every year to make sure of it. Perhaps this represents an application of the Chinese principle of paying the physician to keep one well; perhaps it is a reflection of the acute health-consciousness emphasized by effective advertising of medicines, prophylactics, and hygienic devices and the popularity of medical advice, suggestion, and gossip in American newspapers. At any rate Americans, as individual health seekers, are spending well over $3 billions annually for medical goods and services, aside from the amounts spent indirectly by public health agencies and in institutions which provide free medical care.

Show Steady Rise

Individual expenditures on health, as shown in the table accompanying this article, have risen steadily and rather rapidly from about $1,900 millions in 1919 to over $3¾ billions in 1929, with relatively little drop during the depression years covered by this period. The proportion of the consumer's dollar spent on health has risen from 2.6¢ in 1919 to 3.7¢ in 1929. On a per family basis, direct expenditures for health amounted to $79 in 1919 and $128 in 1929, with an average for the whole period of $102.

Cost of Illness

This is a rough but fairly representative measure of the direct cost of illness to the average American family, but does not include the indirect costs due to loss of income or payments in support of public health services.

It is estimated that 90% or more of all families have illness of some kind each year. According to estimates of the American Medical Association, approximately 2% of the entire population is continuously suffering from illness too severe to permit them to carry on their usual work. Of these 2½ million individuals some 600,000 are constantly in hospitals or similar institutions, and under severe epidemics, such as that of influenza in 1918, the percentage of total illness has risen to 6% of the entire population. It is clear, therefore, that the total cost of illness to the community as a whole is much larger than that represented by the direct outlay of individuals, and may,

Health Expenditures of Individual Consumers, 1919-1930
(Millions of Dollars)

	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930
Services												
Physicians and Surgeons	613	660	690	720	750	780	805	840	865	890	915	811
Dentists	130	140	157	173	195	212	232	258	285	320	355	275
Nurses (at home)	88	98	99	100	109	111	124	137	152	165	176	181
Dispensaries	1	1	1	1	2	2	2	2	2	2	3	4
Hospital Care	197	204	251	275	300	361	375	381	405	475	522	525
Sanitariums	126	200	210	251	275	300	351	476	540	611	641	600
Total Services	1,155	1,303	1,408	1,520	1,631	1,766	1,889	2,094	2,249	2,463	2,612	2,396
Goods and Appliances												
Optical Goods	100	118	89	98	109	84	67	67	65	67	68	51
Surgical Appliances	59	65	49	57	67	75	83	83	86	88	92	88
Artificial Limbs	4	5	4	4	4	4	4	5	5	5	5	5
Heating Pads, Electric	2	2	1	1	2	2	2	2	3	3	3	3
Vibrators, Exercisers	7	9	10	9	9	10	15	16	21	22	22	17
Violet-Ray Outfits	1	1	1	2	2	1	2	2	2	3	5	3
Earphones, Wheelchairs, etc.	1	2	2	2	2	2	3	3	3	3	3	3
Total Appliances	174	202	156	173	195	178	176	178	185	191	198	170
Medicines and Drugs												
Druggists' Preparations	200	229	182	182	185	198	232	240	242	268	282	224
Patent Medicines	270	318	264	292	356	374	371	395	417	452	472	362
Miscellaneous Supplies	97	103	94	103	115	156	179	181	193	204	212	178
Total Medicines and Drugs	567	650	540	577	656	728	782	816	852	924	966	764
GRAND TOTAL	1,896	2,155	2,104	2,270	2,482	2,672	2,847	3,088	3,286	3,578	3,776	3,330

according to some estimates, run as much as four or five times as high.

Of the direct expenditures for health the largest proportion is of course for services. In spite of the fact that Americans are supposed to be eminent as nostrum enthusiasts or medicine addicts, especially for potions of the patent variety, the expenditures for drugs and medicines have not risen as rapidly as those for services, although the increased use of certain appliances reflects the influence of medical fads.

Hospital Expense Increase

Among the forms of medical service there has been a notable tendency for institutional service to increase more rapidly than the direct individual service of doctors and dentists and home nurses. As the table shows, in 1919 expenditures in hospitals, sanatoria, dispensaries were less than half as large as the outlays for doctors, dentists, and home nurses, while by the end of the period such institutional expenditures were almost as large as the other kind. This is one reflection of the rapid conversion of medical care to a mass production basis, or of what is sometimes called the "institutionalization of medicine."

Drugs and Doctors

Taking the average family's health outlay for 1929—$128—as typical of recent years, the chart shows that its direct doctor bill amounted to $31, as against $39 spent in hospitals, dispensaries, and sanatoria. It paid $33 for drugs and medicines, $7 for optical goods and various health appliances, $6 for home nursing, and $12 for the dentist.

These are conservative estimates based, for the service items, on figures of the Bureau of Public Health Service, the Committee on the Cost of Medical Care, and data published in the *Journal* of the American Medical Association and other medical journals. Estimates of the value of medicines, drugs, and other health goods used are based on the census data, as in the case of other physical commodities covered in this study of consumer expenditures.

The Dentists Share

Recent studies made for the American Dental Association indicate that the estimates here given for dental expenditures may be somewhat low. These studies show that for 1929, 24 million individuals were treated by the 56,800 dentists in private practice and paid $446 millions for the service, or an average of $18 per patient. According to this survey the average dentist's income in the twenty states used as a basis

for the study was $4,100. Approximately 20% of the population of the states covered in the study received private dental service during the year, and the average dentist treats 8 patients a day and handles 430 different patients during the year. Losses due to uncollectible bills are small, 70% of the dentists estimating that their bad bills did not exceed 5% of the total.

Hitting the Trail Has Been A Profitable Move for Ice Cream

"Good Humor" gets a large share of the profits but, this year, it has many imitators

THE motorized American, hitting the concrete trail this summer, will be wooed by dozens of ice cream and sherbet novelties designed to assuage his hunger, slake his thirst—and besmear the fingers of his offspring. The longest- and best-known of these, "Good Humor," goes house-to-house selling one better, has a car-to-car campaign. It pursues the flitting family to the highways and during a pause for a stop-light or a view of the scenery makes sales through the medium of a white-coated youth attached to a parked white truck. Ice cream for table use also may be bought.

Formula Widely Copied

This unusual selling formula has been so successful that it is being widely copied. Imitators will have their troubles since they must adapt a technique that has been carefully perfected for a special product. "Good Humor" is a chocolate-coated bar of ice cream on a stick. Retail price, 10¢. The roadside vending idea hails from California, land of sunshine, motorists, and original experiment.

Paul Hawkins, in charge of the California territory, worked out the sales scheme. He reduced it to so fine a point that he is said to have fired salesmen who said "Good Humor ice cream" rather than the more profitable, "Ice cream Good Humor." Now Good Humor salesmen are carefully selected college men or high-school graduates and they are schooled for weeks before they are given a truck.

Rigorous Training

Applicants are shown exactly what roadside spots are most productive, how to stand by their trucks, what to say to prospects. To a woman the salesman must raise his cap; men customers must be saluted. The pay is 20% commission with no guarantee. Out of this the salesmen buy their own gas and pay for laundering the white coats.

Retailers are irritated by this competitor. Here is a rolling ice cream store which combines distribution and sales, which escapes many items of overhead troublesome to the stationary vendor. The trucks pay peddler license or other impositions necessary in towns. There is little expense if the truck, with its stock dry-iced, stops beyond a corporation line. There it can capture the ice-cream demands of the homing housewife. Some towns have demanded special license fees. In such instances unlicensed trucks are warned against selling citizens who hail them in the forbidden territory; it may be a town constable trying to obtain evidence for a fine.

The Good Humor organization includes licensing as well as manufacturing units. Ice cream makers are sold the rights to produce a similar confection called Cheerio which sells for 5¢. Thus the company is in the position of competing with itself, a detail that doesn't seem to worry the executives. What does worry them is Popsicle, "a drink on a stick."

They Chill the Sucker

Popsicle is made of sherbet or flavored water ice. You might call it an all-day sucker with a chill. Its parentage runs back to a glass of hot lemonade which Frank Epperson, an engineer, prepared for his ailing mother. Mr. Epperson concocted the drink, and set it outside his window to cool, leaving the spoon in the glass. It was forgotten until next morning. The night was cold and when the lemonade was retrieved it had frozen solid, the spoon held tight. Mr. Epperson poured hot water in the glass, lifted out the lemonade which still clung to the spoon. His tongue gave the congealed mass a historic lick and presto! (or eureka!) the Popsicle idea was born.

Epperson's patent was issued in 1924. The year previous Harry Burt, ice cream maker of Youngstown, O., had received a patent for mounting an order of ice cream on a stick. Clash was inevitable. Burt sued Popsicle but compromised. Burt reserved rights to make ice cream on a stick; Popsicle was empowered similarly to mount sherbet and water ice. Thereafter Messrs. Burt and Epperson retired to the enjoyment of fat royalties.

Holders of the Burt patent (the Good Humor people) had cause to regret the word "sherbet" in the Epperson agreement. Last fall Good Humor began licensing makers of the 5¢ Cheerio. Popsicle Corp. is a licensing company. Its licensees were hit by competition of the Cheerios. Popsicle countered by licensing the manufacture of Milk Popsicles, also retailing for 5¢. Further, the Milk Popsicles were, like the Good Humors, coated with chocolate and rectangular in form. The true Popsicle is cylindrical. Good Humor Corp. asked in the Delaware courts for an injunction and on May 27 won the first fall. Popsicle will continue to fight, basing its claim on the word "sherbet" which they have a right to make and which, it is alleged, may include milk as well as water formulas.

Nitrate Cartel Works Under Chilean Threat

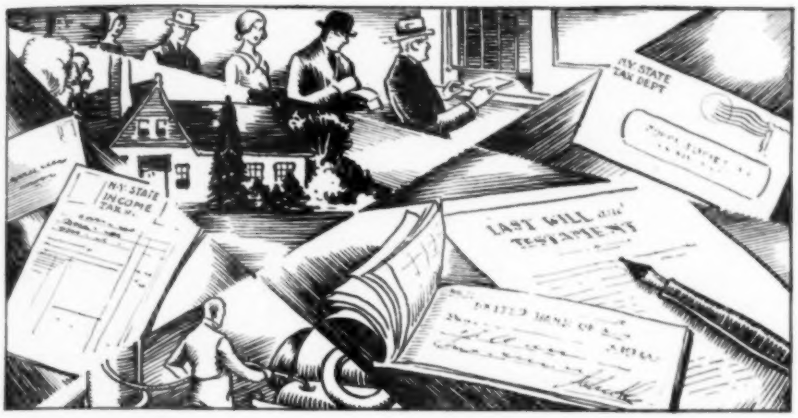
NEGOTIATIONS aimed at the reorganization of a world nitrate cartel, broken off summarily last year when synthetic and natural producers split, have been reopened in Europe.

Representatives of 10 countries are present but the key members are Germany, Norway and Chile. The first 2 produce synthetic nitrate; the latter natural.

Urge for the recent conferences was the threat that 2 million tons of Chilean nitrate at present in European ports might be dumped. Europeans, frankly alarmed, appealed to the new Santiago government for cooperation in protecting world markets. Chile's reply intimated that cooperation depended on the hearing given it at the conference.

Because it produces no nitrate but is one of the world's largest consumers, France is importantly concerned with the negotiations. The Chilean demand that it be given half the French market failed to win the support of the European delegates. Cosach company, Chile's famed nitrate trust now threatened with dissolution by the new governmental junta in Santiago, is intensely interested in marketing some of the surplus stocks.

Let's inspect Mr. Consumer's direct-tax bill . . . . .



BUSINESS men, today, are interested not only in the taxes they themselves pay, but in the taxes we all pay. For every dollar that goes out of the consumer's wallet and into the government coffers means just one dollar less in the form of personal purchasing power.

"Taxes must come down" is the universal cry of business today. You, as a business man, are probably joining in that cry. But do you know the essential facts and figures about direct personal taxes—the taxes the consumer pays *as taxes*, as distinguished from those he pays on the things he buys?

Can you, for example, answer questions such as these?:

Do direct personal taxes take a considerable portion of the consumer's income?

Does the consumer pay more in direct or indirect taxes?

Has his direct-tax bill increased greatly since 1919?

Which was the peak year for federal income tax collections?

Which have increased more sharply since the war: Federal or State direct-taxes?

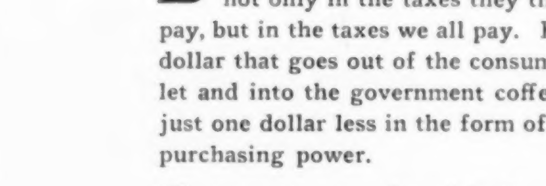
Does the farm population pay more or less in personal property taxes than the urban population?

In the fourteenth article on "The American Consumer Market," appearing in the July 27th issue of *The Business Week*, you'll find the answers to these and many other questions . . . facts that will surprise you, enlighten you, and for the first time, give you the complete picture of direct personal taxation during the post-war decade.

This series of twenty articles is of inestimable value to business men, because it is the only study that includes *all* the expenditures of *all* the American people for *all* the years from 1919 through 1930. Read all twenty of these articles. They will give you what your business has always needed; a true picture of the changing spending habits of your most important customer—Mr. Consumer.

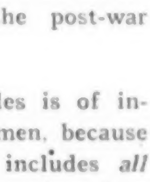
THE BUSINESS WEEK

330 West Forty-Second Street New York City



Where are the Consumer's Dollars Headed?

You'll find the answer in the series of 20 studies of "The American Consumer Market" now running in *The Business Week*.



Business Abroad—Swift Survey Of the Week's Developments

The Lausanne agreement—added to last week's encouraging news—has given world business new hope. . . . Several commodity prices have gained sharply; stock markets are more cheerful; only industry has not yet reflected the new hopefulness. . . . Britain is confident, is turning all interest on the pending empire negotiations at Ottawa. . . . France is jubilant over the Lausanne accord, the new pledge of British backing. . . . Germany is a little more sanguine over the chances that international cooperation will overtake financial collapse in Central Europe. . . . Brazil may be running into a major revolution. . . . World attention now centers in the British empire parleys which commence at Ottawa July 21.

Europe

EUROPEAN NEWS BUREAU (*Radio*)—Success in reaching a final agreement on German reparations, even though it is conditional on cooperative action by the United States on scaling down war debts, is the most important business development in Europe this week. Optimism is general, though it is tinctured with some feeling of caution. The lack of initial response in Wall Street, plus the unfavorable political comment from Washington, has dampened some of the first enthusiasm without drowning the confidence that reparations are definitely ended.

Europeans have summarized their hopes in this manner: The conference, even with its conditional settlement, achieved more than even the most sanguine could have hoped for a month ago. In wiping out reparations, the primary obstacle toward fuller international collaboration has been cleared away. By eliminating impossible reparations payments, the practically perfected plan for a loan to save Austria may, by following immediately, save Central Europe from financial collapse.

Washington May Object

It is not fully realized in Europe how many of the objections raised by Washington to the conditioning of the agreement on a proportionate writedown of war debts are for domestic consumption among political constituencies and how many indicate legitimate objections which can be expected to loom large when Congress studies the problem after the elections in November.

There are also observers who question whether ratification of the Lausanne agreement can come soon enough to prevent further suspension of payments on private foreign debt obligations by Germany. If this comes, they point out, it would have serious financial repercussions in Holland, Britain, and the United States.

Optimism Increases

Increasing optimism, however, is not to be denied. The machinery for calling a world economic parley to which the United States will be invited has been set in motion. Europe expects it will be held in London in September.

Stock markets reacted slightly during the week to last week's spectacular rises. Foreign bonds continued to be the leaders despite unimportant lapses for profit taking. British stocks in particular have sold briskly upward due to the favorable conversion operation news and to the enthusiasm over the Lausanne settlement. Market opinion is that speculation in industrials has been overdone during the week and that there is likely to be some recession.

Industry is in the summer doldrums. The British are still hopeful that the early indications for success of the big conversion operation (*BW—Jul13'32*) augur well for the turning of funds to industrial shares. Except for the large volume of Soviet orders, German industry is slack and expects little pickup until after the elections at the end of July and until some further step is taken to break down trade barriers.

Commodities Up

Commodity prices, except for the metals group, were generally stronger during the week. The zinc cartel has decided further to curtail production. Nitrate producers have moved to London to continue their discussions. Chile is threatening to dump nitrate in Europe unless Cosach is given a fair share in European markets. Belgian copper interests, despite the withdrawal of Union Minière from Copper Exporters, have pledged themselves to maintain their part of the world agreement to curtail output. It is expected that British producers will take the next move in the copper industry when they argue at Ottawa for tariffs.

Acme

FROM RAILROADING TO DIPLOMACY—*No great step in Japan, for who should know better than the President of the South Manchurian Railway the intricate Manchurian affairs with which the new Foreign Minister must deal? Count Uchida has been Foreign Minister twice before*

The world oil conference at Paris has reached no agreement. British and American interests are attempting to agree among themselves on a curtailment program to which Rumania will subscribe. Soviet officials are still available if the other interests agree among themselves on a world marketing plan which will allow them to handle Soviet exports in return for a substantial loan to Moscow to be repaid in oil.

Relief for Germany

Germany's standstill creditors, now in conference, are expected to agree this week to a plan to cut the interest rates on their frozen loans to Germany so that annual interest charges will be reduced from $83 to $74 millions. There is no doubt, also, that they are discussing the possibility that Germany may ask a moratorium on further private obligations in the near future. It is entirely probable that this may soon be necessary because of the declining trend of the German balance of trade.

Except for the imposition by the British of special duties on Irish imports to make up the deficit in the British treasury which will be caused by Dublin's refusal to meet this year's land annuities (*BW—Jul13'32*), tariffs have a minor rôle in the week's news. French tariff and quota policy is still a bone of contention, but cureful attention will turn next week to developments at Ottawa. It is not likely that many broad conclusive agreements for closer empire trade will be reached, but third parties will be watching for proposals for various bilateral trade agreements.

Europe attaches some significance to the fact that neither of the political parties in the United States gave any special attention to Soviet business or Soviet recognition in the party platforms. Germany, in particular, is grasping eagerly for Soviet orders. The British steel industry is also running a fair volume of this business. Reports from New York that Soviet orders placed in the United States have dropped 86% this year are considered scarcely less significant than that the Soviet Union now has a small favorable balance of trade on its American business.

Great Britain

Securities markets active on favorable conversion operation news, plus outcome at Lausanne. Industrial shares probably over expanded in current trading. . . . No immediate move to return to gold despite B.I.S. report. . . . London changes its thinking on Ottawa, wants world reciprocity as much as empire reciprocity. . . . Monetary reform imminent.

LONDON (*Cable*)—Surface satisfaction over Lausanne, plus the successful progress of the conversion scheme in the 2 weeks since it was announced, have strengthened business morale. There is, nevertheless, an undercurrent of disappointment that the Lausanne agreement is not the clear-cut, final settlement which was expected. There are even some doubts that the United States will go very far to cooperate in writing down war debts.

Securities Sell Briskly

The success of the conversion operation is one of the week's most cheering factors. Not only the gilt-edged market, but all other markets, especially industrials, have spurted and investment business is extremely lively. The Chancellor has made a special appeal to private enterprise not to make new issues of capital before the 3-month period of war loan conversion is ended, but new issues are in active preparation, ready for the opportune moment after September when streams of cheap new money will be available for industry.

The stock market boom which followed the announcement by the government of the enormous conversion operation continues, but it has been overdone in the industrial section, according to the best financial observers, and there is a distinct probability of some price recession in the near future.

The Pound at $3.60

Announcement by the Bank for International Settlements of its decision favoring worldwide return to the gold standard caused little surprise in London despite the fact the project is backed by Montagu Norman, governor of the Bank of England. Britain is definitely not committed to follow out the policy. In the better informed circles, it is anticipated that Britain will not return to the gold standard before next year. The most discussed figure for parity now is around $3.60.

Official unemployment figures show a rise in June of 6,000 above the May level. The new total is about 82,000 above the level in June, 1931. However, the method of registration has changed so that it is impossible to compare directly with earlier figures, and it is likely that there are many more jobless than these figures indicate.

On the eve of the Ottawa conference there is still no substantial definition of the policy the British government will pursue. Six months ago the

conference was conceived in England as being the almost inevitable inauguration of the great Imperial Zollverein first envisaged by Joseph Chamberlain in 1903. Now, the stress of official speeches and writings is away from this conception and towards the ideal that Ottawa, by inaugurating an imperial policy of reciprocity, will also inaugurate a policy of international reciprocity.

Imperial Policy Shifts

Even strong Protectionist-Imperialists like Minister Baldwin and Lord Hailsham have sounded warnings that the general policy must be to get imperial duties lowered and not to get the tariffs against other countries raised, and that it is a vain dream that Britain can ever be the market for all Dominion-produced raw material, or the Dominions a market for all the manufactures that Britain can provide.

The British are increasingly aware that Canada and Australia, particularly, among the Dominions will be unwilling to sacrifice their industries by throwing wide open their markets to British producers. At the same time, the British are increasingly aware of the importance to them of some foreign markets other than in the Empire.

Sir Herbert Austin, the motor magnate, has presented the significant estimate that for every 20 shillings the British spend in the Dominions, the Dominions bought back 15/6d worth of goods. The same comparison with other countries shows the following returns to British business for each 20 shillings spent by Britain:

Dominions	15/6d
France	15/8d
Argentina	5/8d
Soviet Union	5/4d
United States	4/10d
Denmark	3/11d

Apart from the tariff policy, the most vital discussions at Ottawa must turn on currency systems. On this question there is no doubt that British opinion is in favor of a strong attempt to found an imperial monetary system. A "sterling movement," it is believed, would bring in half of the world, would increase imperial trade without imperiling foreign trade, would reduce the burden both of debt and fixed charges.

Germany

Berlin markets had already discounted Lausanne results; Wall Street's lack of interest discouraging. . . . "Standstill" debtors expect $9 million interest cut. . . . Discount rate reduction expected with B.I.S. backing. . . . Industrial activity unchanged. . . . Greatest uncertainty over Reichstag elections July 31.

BERLIN (*Cable*)—Germans, along with almost all other Europeans, are convinced that Germany has finished with reparations no matter whether the new Lausanne agreement is ratified or not. Of course, if it is ratified, Germany's financial position among the nations is made easier.

Business had discounted this much of the Lausanne agreement some time ago. That is why stocks scarcely reacted to the first optimistic announcements from the Swiss conference city. That also is why financial markets were weak immediately it was known that Wall Street showed no interest in the decision.

What It Means to Reich

Principal gain to Germany in the decision last week was the chance of bringing home probably $2 billions of German deposits which refused to come back to Berlin until the Reich was freed from the threat of economic collapse because of the reparations drain. Another hope was that the same spirit of cooperation which moved Europe to agree on reparations might continue until relief is outlined for all Central Europe. If such a scheme comes quickly enough, it may save Germany from seeking a further moratorium on private debts. This, in turn, would relieve Dutch, British, and American bankers of a lot of worries.

Other conference news was cheering to the Germans this week. In London, the country's "standstill" creditors are considering a reduction in the interest rates charged on the frozen short-term credits. Rumors indicate they have agreed on a reduction which will save Germany $9 millions annually.

Reichsbank May Lower Rate

There is already talk, said to have started in Basle, that the Reichsbank will be allowed to reduce the discount rate despite the fact the Reichsbank's gold cover is below the old legal requirement of 40%. This would immediately cheapen credit in Germany, aid industry.

Steel is still working at something above the earlier average because of large Dutch and Russian orders. Domestic construction, however, is down, making the prospect of continued activity slight. Retail sales for June lagged so that consumer industries are anticipating further curtailment of production.

Pending elections to the Reichstag are veiled in the greatest uncertainty. A clear majority for the Hitler party is unlikely because of the strong opposition of Catholic Germany. If the election results in a deadlock it is sure to strengthen the Von Papen government which may continue as the interim ruling power in the Reich.

France

French consider Lausanne a triumph for them in getting united European front on war debts stand. . . . Herriot government wins vote of confidence, makes progress toward a balanced budget. . . . Bourse fails to react upward on results at Lausanne. . . . Industry generally slack.

PARIS (*Wireless*)—The outcome of the Lausanne conference is considered a triumph for the French anti-clean-slate policy on reparations, despite the fact that ultimate ratification of the present decision means an annual loss in reparations of $60 millions to the French budget.

In return for this sacrifice, France has won a solid European front in its demand that the United States scale down proportionately the war debts which 14 European nations owe her. To the French, who have already had their debt scaled down more than the British and who can least demand a debt cut on the grounds of "inability to pay," this winning of a united front is important.

Claiming major attention in Paris since the return of the delegates from Lausanne is the government's debate on the budget. After weeks of debating during which the Herriot government was threatened with defeat because of its inability to arrive at a balanced budget, Herriot has won a vote of confidence in the Chamber, has succeeded in cutting the deficit considerably by winning approval for income tax increases up to 30%, for a tax on coffee consumed at cafés, and for a number of other minor tax increases.

Washington Worries Paris

The French Bourse is too much concerned with the unfavorable reaction in Washington to the rumored "gentlemen's agreement" tied to the Lausanne pact, and with the prospect of a budget deficit to allow itself to go wild on the first reports of Lausanne success.

Industry, on the other hand, showed several faint signs of a pickup during the week. Textiles, and iron and steel

however, continued to report decreasing activity. General price indices declined in June compared with May. The wholesale index dropped from 421 to 408; retail from 559 to 554.

Latin America

Better prices for sugar, coffee, cocoa aid Latin American countries. . . . Brazil is threatened with change of government.

Two developments in Latin America last week were of special significance to business.

One was the general rise in the price of sugar, cocoa, and coffee on world markets. Cuba, Brazil, Colombia, and Ecuador were particularly affected. The sugar price rise has been steady for some time and there are prospects that it will continue. Cocoa rose steadily during the week. Coffee, after weakening in the previous week, turned stronger on reports that the port of São Paulo would close because of the revolution in Brazil.

This threat of a thorough-going civil upset in Brazil is the second development affecting large business interests. The present régime is in control of the Brazilian government as a result of a coup d'etat, not as the result of a constitutional election. Provisional-President Vargas has many enemies. He has promised to sponsor national elections, but has delayed them for another year. Important political interests evidently are unwilling to wait that long. Few observers expect much bloodshed.

Far East

Japan watches rise in price of silk as new crop goes to market. . . . Rayon, fertilizer, and cement industries expand; other contract. . . . China quiet.

The rising price of silk as the new raw silk crop comes to the market is the most significant business development in the Orient. Japan is watching the progress closely. Curtailment schemes are under way. This price rise may be the first sign of their effectiveness.

Japanese industry is dull. Only the rayon, fertilizer, and cement groups reported expansion last week. Textiles, paper, iron and steel, and silk weaving have curtailed activity from 30% to 50%.

Chinese business is quiet. Philippine activity is restricted.

The Figures of the Week And What They Mean

The rising trend of commodity prices remains the most cheerful aspect of the business picture. . . . Steel activity has resumed its pre-holiday level, but the summer outlook is none too bright. . . . Coal production has been practically stationary for 2 months. . . . Extensive industrial curtailment over the July 4 week-end severely depressed electric power consumption. . . . Carloadings continue to sag as retail trade reports further contraction of consumer purchasing. . . . Currency circulation soared to a new peak, but post-holiday activity and improved banking conditions may lower the level in the near future. . . . Check payments were influenced by mid-year dividend and interest payments.

RESUMPTION of steel activity by both makers and consumers following the holidays characterized the past week. The *Iron Age* estimates a rather sharp rebound to 16% of capacity compared with 12% the preceding week, which lifts the adjusted index to 25% of normal. Only day-to-day orders, which are substantially reduced in volume at this time of the year, are available. Moreover, many steel consuming plants are completely closed with re-openings not expected until late in July or in August.

For the month of June the American Iron and Steel Institute reports an output of only 897,000 tons of steel equal to an operating rate of slightly less than 16%, against 1.1 million tons in May with an operating rate of 20% of capacity. Steel production in the first 6 months declined 51.4% from the same period of 1931.

The backlog of orders of the U. S. Steel Corp. at the close of June declined for the fifteenth consecutive month to a volume of 2,034,768 tons, a loss of some 142,000 tons. The significance of these figures has been steadily lessening. In these days of hand-to-mouth buying, backlogs are not expected to be large. At even the prevailing rate of activity the 2-million-ton backlog is large and equal to 4 months' operations at 25% of capacity, according to the *American Metal Market*. But the chief defect of these unfilled order records is that they do not represent real obligations on the part of the buyer to accept and pay for the steel order. Consequently a considerable part of the shrinkage in the bookings data may represent the elimination of long-standing tonnage that now is quite certainly dead.

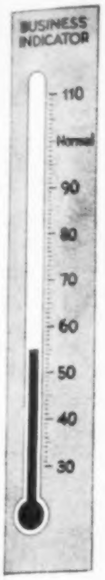
Pennsylvania Orders Rails

As a result of the specification for 20,000 tons of rails by the Pennsylvania Railroad, the Chicago district will experience a little activity. Even structural steel activity has begun to fade, after June established the best record in many months. Steel makers look to a little additional business when the federal construction bill becomes law.

Automobile tonnage is also expected to be definitely smaller in the coming months. Even Ford volume is tapering, the schedule for July ranging around 85,000 cars and for August about 70,000. Steel tonnage for new models is not significant yet. June automobile

THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1927-1931)*
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	***54.9**	**†54.9**	**77.2**	......
PRODUCTION				
Steel Ingot Operation (% of capacity)	**16**	**12**	**31**	64
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	**$4,619**	**$5,315**	**$12,526**	$21,062
Bituminous Coal (daily average, 1,000 tons)	***680**	**693**	**1,192**	1,345
Electric Power (millions K.W.H.)	**1,342**	**1,457**	**1,604**	1,568
TRADE				
Total Carloadings (daily average, 1,000 cars)	**82**	**83**	**134**	162
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	**59**	**61**	**89**	106
Check Payments (outside N. Y. City, millions)	**$3,400**	**$2,820**	**$4,247**	$5,331
Money in Circulation (daily average, millions)	**$5,785**	**†$5,703**	**$4,858**	$4,760
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	**$.45**	**$.43**	**$.46**	$1.04
Cotton (middling, New York, lb.)	**$.059**	**$.059**	**$.092**	$.161
Iron and Steel (STEEL composite, ton)	**$29.48**	**$29.52**	**$30.98**	$34.42
Copper (electrolytic, f.o.b. refinery, lb.)	**$.051**	**$.051**	**$.077**	$.127
All Commodities (Fisher's Index, 1926=100)	**59.6**	**59.6**	**70.4**	88.8
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	**$2,404**	**$2,359**	**$959**	$1,214
Total Loans and Investments, Federal Reserve reporting member banks (millions)	**$18,532**	**$18,754**	**$22,487**	$22,161
Commercial Loans, Federal Reserve reporting member banks (millions)	**$6,484**	**$6,518**	**$7,971**	$8,662
Security Loans, Federal Reserve reporting member banks (millions)	**$4,632**	**$4,745**	**$6,665**	$7,234
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	**$333**	**$342**	**$1,455**	$3,556
Stock Prices (average 100 stocks, Herald-Tribune)	**$74.39**	**$74.67**	**$121.01**	$153.26
Bond Prices (Dow, Jones, average 40 bonds)	**$70.33**	**$69.67**	**$95.71**	$95.75
Interest Rates—Call Loans (daily average, renewal)	**2.3%**	**2.5%**	**1.5%**	4.6%
Interest Rates—Prime Commercial Paper (4-6 months)	**2½-2¾%**	**2½-2¾%**	**2%**	4.1%
Business Failures (Dun, number)	**498**	**661**	**389**	365

***Preliminary** **†Revised**



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.

production in the United States and Canada is reported by the National Automobile Chamber of Commerce at 190,600 units, a decline of 1.5% from the May total of 193,370. Sales as measured by registration returns from 6 states in June indicate a 6% gain over May instead of the usual seasonal decline. General Motors sales to consumers in June dropped off 10%. Sales to dealers in the United States were cut 25%, and in the past 4 months have run consistently below the sales to consumers.

Public Works Awards

July is not expected to show any improvement in construction contracts awarded compared with June, but the heavy volume of public works awards may upset the usual trend of the summer months this year. The *Engineering News-Record* reports heavy construction contracts awarded during the week ending July 11 at $35.7 millions, the second highest week of the year. Road work was conspicuous in this total. Awards for the first 2 weeks of July are now running ahead of the June average.

Bituminous coal production continues to mark time, production having stabilized around 4 million tons a week for the past 8 weeks. The index for the week of July 2 is unchanged at 36% of normal. Production in the first half of 1932 fell 24% below a year ago. A new wage contract has been drawn up for the Illinois and Indiana fields providing for reductions of from 12% to 15% (page 10).

Electric power production took a severe slump during the week ending July 9, following upon the gain of the preceding week. The index declined to 70% of normal. Since the holiday weeks of the past 2 years do not coincide, comparison is made with a 2-week period. The decline of 12.8% from a year ago indicates a further widening of the spread between the 2 years and is probably due to the more extensive holiday shutdowns this year.

Carloadings Slow

Carloadings refer to the week ending July 2 just preceding the July 4 holiday and continue to reflect the general dullness of trade. The index declined to 50% of normal on the basis of the miscellaneous and less than carlot freight. For the first 26 weeks of this year, these combined groups have declined 24.5% from the same period of 1931.

Check payments for the week ending July 6 were swelled by the July 1 disbursements of dividend and interest payments, even though these are estimated to be the smallest in at least 5 years. Curiously enough, the sharpest gains over the preceding week were reported in the 131 cities outside of the financial districts. The index rose one point to 65% of normal for the 140 cities outside of New York.

Currency circulation reached a new high for the present depression and probably the highest since 1920. The increase is still partially due to the holiday effects, though the very sudden rise of outstanding currency in the past month indicates an outbreak of hoarding accompanying unsettled banking conditions in Chicago. June bank closings are now placed at 145, one of the highest months of this year. However, the closings for the week of July 7 declined to 24 from the figure of 41 the preceding week.

Commercial loans continue to be contracted, particularly in the New York district. In the San Francisco area a gain of $18 millions is recorded.

The sharp decline in commercial failures is due chiefly to the effect of the holiday period. Though failures were 15.4% more numerous in the first 6 months of 1932 than a year ago, June showed some improvement compared with preceding months.

Commodity Prices

The hopeful aspects of commodity prices are discussed elsewhere in this issue. Hogs and cattle have been prominently featured in the daily press. The government hog data as of June 1 indicated a 7% decrease in number of hogs.

Silk, sugar, rubber, hides, coffee, and cocoa have joined the upward movement. Wheat and corn prices are weaker. The crop report of July 1 indicates a large increase in the spring wheat crop, offset by a sharp decrease in the winter crop. The corn crop is estimated the largest in several years.

The metal markets continue irregular, though tin and silver have made gains. Zinc and lead are down. Imports of copper in the first 20 days of June preceding the tariff totaled only 24,462 tons. Predictions ran as high as 100,000 tons.

Trends of the Markets In Money, Stocks, Bonds

Continued credit contraction by member banks outside New York is discouraging in face of other favorable financial developments. . . . Currency circulation appears affected by new check taxes. . . . Stocks remain surprisingly steady, dull and indifferent to reparations agreement, but bond market shows increasing firmness under influence of spurt in foreign issues.

Though Banks Feel Better Credit Expansion Lags

ALTHOUGH the reparations agreement, the British debt conversion, the steadiness of security and commodity markets in recent weeks have been encouraging factors in the financial situation and have improved the tone of banking sentiment, little or no progress toward credit expansion has been made. The volume of loans and investments of the weekly reporting member banks in New York City continues fairly stable at about the same level as early in March, with reserves and deposits still above the depression low point, but the continued contraction of both assets and deposits of outside member banks is disturbing. With but few brief interruptions, this contraction is going on at the same drastic rate as has marked the liquidation of bank credit since last fall.

Currency outstanding reached a new peak last week. Following the effect of the Chicago runs came the usual enlarged demand for Independence Day holiday needs, but these influences are now supplemented by the tax on bank checks and the postage rate increase which are causing considerable closing out of check accounts and increased use of cash for current payments. Probably the factor of outright hoarding in the recent currency expansion is overestimated. A considerably larger part of current business is being done on cash.

Federal Reserve policy appears now to be controlled largely by current local currency requirements. Although the strain of gold exports has passed, there is no sign of further pressure to stimulate member bank credit expansion by forced increase of member bank reserves through open-market operations.

There is some hope of expanding the volume of commercial paper through the drive now begun to increase the use of trade acceptances. The possibilities and problems involved are discussed elsewhere in this issue (page 18). A beginning has been made in developing an open market for this kind of paper, and rates ranging from 2% to 3⅜% are being quoted by dealers in New York, but official Federal Reserve quotations are not yet forthcoming.

Money Rates Still Easing

Money rates continue to ease slowly, with bankers' 90-day bills at ¾-⅞, and the open-market call rate down to 1%. The official Stock Exchange call rate was reduced to 2% from the fictitious 2½% figure at which, by local bank agreement, it has been pegged since the beginning of the year; but even 2% is still nominal.

The exchanges continue quiet and steady and gold movements without special interest except for the withdrawal of a sizeable gold balance by Ecuador, which suddenly and somewhat belatedly became anxious about the permanence of the gold standard here. The International Bank this week supported the recent League bull on the sanctity of the gold standard by a similar pronouncement, but the number of cows in that pasture is not increasing. England says officially she is not ready to come back across the fence yet, and at Ottawa she may attempt to round up the non-gold countries under a sterling brand.

Good News Or Bad, Stocks Sit Tight

THE steadiness of the stock averages and the stagnation of market turnover is becoming a curiosity of the statistical record. There are few, if any, instances of so prolonged a period of practically complete immobility in the market averages. Since the beginning of June, about 7 weeks, the standard averages have fluctuated within a range of 5 points, and in the past 2 weeks have scarcely fluttered at all from their horizontal position. The June 1 bear market lows are still counted unbroken. This in spite of continued liquidation of bank security loans and investment trust portfolios. Such selling as there is, in a turnover averaging less than ¾ million shares daily, seems to be well absorbed.

Even more surprising has been the complete absence of any speculative response in the share market to the bullish implications of the reparations settlement, in spite of the exhortations of the market letters and newspaper interpreters, who have had the surprise of their life at this indifference, so strongly in contrast to the enthusiasm that accompanied the Hoover moratorium announcement a year ago. It is evident that the market is marking time for new developments nearer home, especially the second-quarter earnings reports soon to appear. There is no doubt that these will be pretty sour, but the market is increasingly inclined to discount the future rather than reflect the past. Recent signs of strength in commodities, from which the stock market is more and more disposed to take its cue, raise some hope that it may have seen its last spell of severe liquidation for this bear movement.

Rise of Foreign Bonds Braces Domestic Issues

BONDS made up for the bored reception of the reparations settlement in the stock market by spectacular rises in the foreign issues all along the line. Part of the favorable implications of Lausanne had been discounted during the preceding weeks, but the gains were extended and have been well held in spite of the political back-fire forthcoming since. A considerable part of the speculative rush into foreign dollar bonds seems to be coming from abroad, because prices have been relatively more depressed in American than foreign markets.

Some of the strength in foreign issues seems to be spreading to the domestic bond market and steadying it as the implications of the softening of long-term money rates are realized. The domestic governments were especially affected by the prospects of passage of the new Glass national bank bond-currency expansion bill which may put some of the Treasuries with a coupon rate of less than 3⅜% at a premium if many of the smaller banks wish to avail themselves of the circulation privilege extended to these issues.

THE BUSINESS WEEK

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July 20, 1932

Do It This Way

IT would be unfortunate if the constructive possibilities of the new relief measure were to be frustrated or fumbled because of confused thinking, superficial misunderstandings or partisan political strategy at this critical stage of the course of business recovery. It is clear that both the Administration and the conscientious members of Congress intend essentially the same thing in this important piece of legislation.

They wish to, and they must, provide emergency relief for the unemployed where local resources are exhausted. But the strategy of the Administration and of Congress in the legislative campaign for recovery has now definitely passed from the negative phase of providing support for the weak situations in the financial structure to the positive phase of directly stimulating an increase in normal employment by putting the public credit back of private enterprise.

There can be no considerable resumption of employment except through a revival of private enterprise, particularly in those industries which show the greatest decline in activity, the construction, equipment and similar industries producing capital facilities. Since the flow of capital and credit into the improvement of our productive facilities has been checked, it is proper and necessary to use the public credit to prime the pump of private enterprise.

The President is unquestionably right in refusing to permit the public credit to be used to make loans indiscriminately to individuals or local governments, for any purpose, on any security, and to charge the Reconstruction Finance Corporation with the responsibility for administering such loans directly.

The only possible way of using the public credit effectively to stimulate employment, apart from direct public construction, is to apply it, through established banking channels and institutions, to the support and assistance of new private enterprise of a constructive character. This means, in essence, putting the public credit back of new private loans by banks, as a kind of contingent security. These loans must be for new enterprise, not to pay off old debts, to maintain solvency or support security values.

The "self-liquidating" public works contemplated in the relief measure are only part, and probably can be only a minor part, of the whole field of constructive enterprise to which the public credit might properly be applied. The modernization of industrial equipment and productive facilities would be a much more important stimulation to employment. The need is there, the demand can easily be mobilized, the private banking facilities will be forthcoming as soon as a secondary reserve of public credit is created.

This needs no new legislation elaborating in detail the kind of industries or individual concerns to which the Reconstruction Corporation shall or shall not make loans. It requires only that the Corporation shall extend the support it has been giving to our banking system and which it was established to provide. It requires only the elimination from the Act establishing the Corporation of one short sentence which prohibits the Corporation from making to a bank, railroad, or insurance company any loan which is to be used to start any new projects. This sentence alone it is that has prevented the Corporation from doing anything positive to stimulate employment and compelled it to serve solely as a morgue for old debts and a hospital for sick securities.

If that castrating restriction is eliminated, the Corporation, equipped with additional funds, can function freely and effectively as both Congress and President intend and as the conditions demand. It should never have been there, and should be immediately removed by separate amendment along with the other changes which the President now recommends in the Act before Congress adjourns.

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